Exhibit 1

05-May-2022

Leslie's, Inc. (LESL)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Second Quarter of Fiscal 2022 Conference Call for Leslie's, Inc. At this time, all participants are in a listen-only mode. Following the prepared remarks, management will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded and will be available for replay later on the company's website.

I will now turn the call over to Caitlin Churchill, Investor Relations. Please go ahead.

Caitlin Churchill
Senior Vice President, ICR

Thank you and good afternoon. I would like to remind everyone that comments made today may include forward-looking statements, which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change. Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC.

During the call today, management will refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was furnished to the SEC today and posted on the Investor Relations section of Leslie's website at ir.lesliespool.com.

On the call today from Leslie's, Inc., is Mike Egeck, Chief Executive Officer; and Steve Weddell, Chief Financial Officer.

With that, I will turn the call over to Mike. Mike?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Caitlin, and good afternoon, everyone. Thank you all for joining us. Please note that we have posted a brief deck on the Leslie's IR site to supplement our discussion, and we will be referring to specific pages as we present. I'm going to start by highlighting our key results and performance drivers for Q2 and then Steve will walk you through our financial results and increased full year guidance.

Before we get into our results, I want to remind everyone about the Texas Freeze in the second quarter last year. In February 2021, an unprecedented cold weather event damaged thousands of pools and pool pads in Texas. This event spiked sales of several product categories, most specifically equipment, parts and sanitizers. As you will remember, we estimated at the time that the freeze and accompanying spike in demand increased sales in the quarter by approximately $10 million. It is very gratifying for us to be able to report a positive comp in this year's quarter despite the extraordinary circumstances in Q2 last year. I would like to thank our team for driving these results with superior execution across the organization.

For purposes of demonstrating what we believe to be our core underlying performance, we will be noting in our remarks some key metrics excluding the impact of the freeze. I am pleased to report that our Q2 performance continued our streak of record results and illustrates our competitive advantages in serving the non-discretionary, annuity-like demand of the aftermarket pool industry.

Sales for the quarter increased 19% to a record $228 million with broad-based strength across our three consumer groups. Residential pool grew 12% for the quarter. Residential hot tub grew 70%. And PRO pool grew 17%. Comp sales increased 13% for the quarter, and the two-year stack comp for the quarter was 49%. The comp and two-year stack comp for the quarter, excluding Texas, was 20% and 48%, respectively. Gross profit for the quarter was a record $85.6 million and margin rate expanded 30 basis points. Adjusted EBITDA was $9 million for the quarter as we continue to make investments to grow our business.

Moving to the industry backdrop, we continue to see the pool and hot tub industry benefit from strong consumer demand in the quarter. This demand is being fueled by consumers continuing to invest in their homes and backyards, the desire for a healthy outdoor lifestyle, migration to the Sunbelt, a heightened sense of safety and sanitization, and hybrid and work-from-home schedules. We have seen no evidence of these macro trends abating.

With regard to inflation, in the quarter, product cost inflation was more than 10%. We passed those costs through and, as is our practice, implemented additional pricing actions to maintain product margin rates. Consumers have accepted the increased retail prices, and we did not see any associated slowdown in demand as evidenced by our 20% comp for the quarter, excluding Texas. For the full year, we now expect product cost inflation of 10% and remain confident in our ability to both pass cost through and utilize pricing actions to maintain product margins if inflation trends higher.

We were pleased with our performance across product categories in the second quarter. However, several categories stood out. Robotic pool cleaner sales increased 64% in the quarter and 172% on a two-year stack. Variable speed pump sales increased 23% in the quarter and 109% on a two-year stack. Heater and heat pump

sales grew 20% in the quarter and 104% on a two-year stack. Hot tub sales grew 82% in the quarter and 284% on a two-year stack. And Trichlor sales, including chlorine tabs, increased 96% in the quarter and 159% on a two-year stack.

On page 8 of the deck, we first have results for these same categories. With regard to chlorine tabs, supply remains constrained and retail prices elevated. Over the last two years, our retail price for a 35-pound bucket of tabs has increased from $99 to $199. We get a lot of questions about what happens if chlorine tab pricing reverses and we have price deflation.

We do not believe that is likely in the near or medium term. Let me explain why. Consumers commonly refer to as chlorine tabs are actually Trichlor tabs. Trichlor is manufactured by combining chlorine, caustic soda and urea. That combination creates Trichlor granules, which are then compacted into tabs. While domestic Trichlor capacity was impacted in 2020 and 2021 by the much discussed plant fire, the industry is also facing very tight chlorine supply conditions which have created corresponding cost increases.

Shortage in chlorine has two drivers. The first is structural. In the last 16 months, chlorine capacity in North America has been reduced by about 7%. The second factor is that chlorine is a key component of PVC. Chlorine use in PVC has a higher value than chlorine use in Trichlor manufacturing. The reduction in total chlorine capacity and the growth in PVC manufacturing has caused the amount of North American sourced chlorine available to US Trichlor manufacturers to decrease by about 20%. The result is that domestic Trichlor capacity is tight and falling short of elevated consumer demand. Imported chlorine and Trichlor granules can bridge supply to the market; however, both are very expensive to the combination of tariff costs, anti-dumping duties, and especially handling and transportation costs.

In addition, urea, another primary component of Trichlor manufacturing, is also experiencing significant cost increases driven by restricted supply and increasing demand. Over the last 12 months, the cost of urea has increased more than fourfold from less than $200 per standard ton to nearly $900 per standard ton.

We have summarized the supply and demand situation on page 11 of the deck. Here is the takeaway. Any absolute increase in Trichlor supply will need to come from high-cost imports or new domestic capacity utilizing high-cost imported chlorine, and all Trichlor manufacturing will be utilizing high-cost urea. Given these challenging supply dynamics and continued robust demand, we believe it is highly unlikely the cost of Trichlor and the retail price of chlorine tabs will go down in 2023.

We also get a number of questions with regard to how our business model will perform in different macroeconomic conditions. As you can see summarized on page 14 in the deck, over the last two decades, Leslie's has been successful in profitably growing sales in periods of rising interest rates, inflation, housing industry slowdowns, GDP contraction, declines in consumer spending, and reduced pool build rates. In fact, our business model has proven to be durable in all of the macroeconomic conditions that have existed during our 58 consecutive years of growth.

And with the addition of Leslie's Connect, the focus on our six strategic growth initiatives and our investments in talent and capabilities, we believe we are better equipped today to grow profitably in challenging macroeconomic conditions than at any other time in our history. Getting back to our Q2 results, let's walk through the performance of our six strategic growth initiatives.

First, our consumer file continues to grow. Total target file growth was 3% in the quarter. We are pleased with this result given the impact of the Texas Freeze in Q2 last year. Second quarter 2022 was our 10 straight quarter of

strong file growth. We are driving this file growth with digital marketing, and we continue to achieve high ROI on our spend. Accordingly, we have now increased our marketing budget for 2022 by more than 30%. Vast majority of the spend will be deployed in our Q3 and Q4.

Next, we continue to deepen our relationships with our consumers. Our loyalty program, Leslie's Pool Perks, drove loyalty file growth of 2% in the quarter despite the comparison against the Texas Freeze last year. The program's key benefit, a 5% rewards earn rate and free shipping continue to resonate with consumers. Average revenue per consumer grew 16% in the quarter, driven by Pool Perks and our segment and personalized marketing tactics. The growth and average revenue per consumer exceeded the impact of inflation and reflects our growing wallet share.

Third, our PRO initiatives are driving strong results. During the quarter, we began converting 29 residential stores to our PRO format and building out 5 new PRO stores. We expect all 34 new PRO locations will be operating prior to pool season and will bring our total PRO store count to 79. PRO Affiliate program continues to scale. We now have over 2,100 agreements in place and our PRO Affiliate partner sales grew 43% in the quarter. The new and converted PRO locations are expanding PRO Affiliate program, and our dedicated Leslie's PRO e-commerce site helped grow our total PRO business 17% in the quarter. Excluding the impact of the Texas Freeze, our PRO business grew 27% in the quarter.

Moving to M&A, in the quarter, we closed on the acquisition of Pool City, which operates seven locations in the Greater Pittsburgh Area. In addition, we have entered into LOIs with two new target acquisitions that we expect to close in our third quarter. We continue to see a wealth of acquisition opportunities amongst the approximately 8,000 independent specialty retailers in the industry, and we will continue to ramp up our acquisition activity.

Based on our acquisitions completed year-to-date, we are increasing our 2022 forecasted sales for our M&A strategic growth initiative from $30 million to $45 million. With regard to our residential whitespace initiative, we have added three new locations year-to-date and remain on track to open at least 10 new residential locations in 2022.

Finally, AccuBlue Home, as we discussed, shortages of the microchips required for manufacturing Version 2.0 has limited production for this pool season. We expect to receive not more than a couple of thousand units, which will be used primarily for additional consumer testing. We are not planning any significant sales for this initiative in 2022.

Now, I'll turn it over to Steve to share more detail on our Q2 financial results and increased fiscal 2022 guidance.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thank you, Mike, and good afternoon, everyone. Today, we're pleased to report strong results for our fiscal second quarter. Our performance illustrates our competitive advantages in serving the non-discretionary, annuity-like demand of the aftermarket pool industry. And our business continues to demonstrate a differentiated ability to grow in all economic environments.

Our dedicated team of associates continued to deliver exceptional service to our consumers each and every day. We thank them for their contributions. Today, I'll review our second quarter and year-to-date fiscal 2022 performance and our upward revision to our outlook for the full year fiscal 2022.

Second quarter results, our second quarter included 13 weeks ended on April 2, 2022. We reported record sales of $228.1 million, an increase of 18.5% or $35.7 million when compared to the second quarter of fiscal 2021. Our comparable sales growth increased 13.3% or $25.5 million. This increase is on top of calendar adjusted comparable sales growth of 35.5% in the second quarter of fiscal 2021 and represents comparable sales growth on a two-year stack basis of 48.8%.

You will recall in Q2 last year, we explained the shifts created by the 53rd week in fiscal 2020 and spoke to comparable sales growth on both a reported and shifted basis given that dynamic. As Mike mentioned, in the second quarter of last year, the Texas Freeze positively impacted performance by approximately $10 million. After excluding the impact of the Texas Freeze in fiscal 2021, sales grew 25% and comparable sales grew 20% in the second quarter of fiscal 2022.

We generated strong results across all consumer types and we continue to see solid performance in the core sanitizer and equipment product categories during the quarter. Inflation remained elevated and primarily related to chemical products and equipment. We expect higher retail prices and costs to continue. We remain confident in our ability to pass costs through and utilize pricing actions to maintain product margins.

Gross profit increased 19.5% and gross margin rate increased by 30 basis points to 37.5% from 37.2% in the prior year, primarily due to occupancy leverage and product margin improvements. Gross margin improvement was partially offset by business mix, including strong growth with both our PRO pool and residential hot tub consumers.

SG&A increased 27.3% over the prior year on a reported basis. The year-over-year SG&A increase was primarily driven by our sales increase and investments in information technology, merchandising systems and supply chain to support our growth. We also incurred higher SG&A associated with acquisitions completed after the end of the first quarter of fiscal 2021. As a reminder, we continue to invest in the business throughout the year and this does impact flow-through in the first half of the fiscal year when SG&A as a percentage of sales is elevated given the seasonality of our business. Total SG&A spend and SG&A as a percentage of sales in the first half of fiscal 2022 was favorable to our internal expectations.

We generated adjusted EBITDA of $8.7 million compared to $9.5 million in the second quarter of fiscal 2021. During the current year quarter, we converted the increase in sales at a higher gross margin and invested against our key strategic priorities. With positive adjusted EBITDA performance in each of the first and second quarter of this year, we're on track to generate positive adjusted EBITDA in each quarter of the fiscal year for the first time in Leslie's recent history. This is a testament to our business strategy and execution by our entire team.

Adjusted net loss remained relatively flat at $2.7 million in the second quarter of fiscal 2022, compared to a net loss of $2.8 million in the prior year. Adjusted diluted loss per share was $0.01 in both the second quarter of fiscal 2022 and in the prior year.

Now, I'll turn to year-to-date results. Following are a few highlights. Total sales for the 26-week period increased 22.4% to $412.9 million from $337.4 million in the prior year, an increase of $75.5 million. Our comparable sales increased 16.4% or $55.2 million. This increase is on top of the shifted comparable sales growth of 31.1% in the first half of fiscal 2021 and represents comparable sales growth on a two-year stack basis of 47.5%.

Gross profit increased 23.9% or $29.5 million to $152.9 million from $123.4 million in the first half of fiscal 2021. Gross margin rate increased by 40 basis points to 37.0% from 36.6% in the prior year. Adjusted EBITDA improved by $0.5 million to $9.8 million from $9.3 million in the first half of fiscal 2021. Adjusted net loss remained

relatively flat at $13.7 million in the first half of fiscal 2022, compared to a net loss of $13.4 million in the prior year. An adjusted diluted loss per share was $0.07 in both the first half of fiscal 2022 and in the prior year.

Moving to the balance sheet, we finished the second quarter of fiscal 2022 with cash and cash equivalents of $52 million compared to $89 million at the end of the second quarter of fiscal 2021. We also had $45 million drawn on our revolver at the end of the second quarter of fiscal 2022 and our current outstanding balance is zero.

On inventory, we continue to expect inventory conditions in the industry to remain tight throughout fiscal 2022, particularly for chemicals and equipment. We ended the second quarter of fiscal 2022 with inventory of $345 million, up 24% compared to $278 million at the end of the prior-year quarter.

Our team continues to proactively work with our vendor partners to manage the flow of inventory, and we continue to identify opportunities to strategically invest in inventory to meet heightened consumer demand and prepare for pool season.

With regard to debt, at the end of the second quarter of fiscal 2022, funded debt less cash was $795 million compared to $721 million at the end of the prior-year quarter. The increase was primarily related to a reduction in cash and cash equivalents, as we executed share repurchases in the first half of fiscal 2022.

In the first half of fiscal 2022, we repurchased 7.5 million shares for a total of $152 million. And we deployed $30 million towards acquisitions. We're in a unique position, high-growth company with strong and consistent cash flow generation. This allows us to pursue a balanced and disciplined approach to capital allocation and demonstrates our commitment to driving shareholder value and our confidence in our long-term growth prospects.

Before I get to our outlook, I want to remind everyone of the natural seasonality of our business. Our primary selling season occurs during the fiscal third and fourth quarters, which span April through September. In fiscal 2021, the first half of the year accounted for approximately 25% of our annual sales, while the third quarter represented approximately 45% and the fourth quarter represented approximately 30%.

We generate substantially all of our full year profits in the second half of our fiscal year. We are uniquely positioned to invest in our business throughout the year, including in talent, operating expenses, working capital and capital expenditures. While these investments drive performance during our primary selling season, they reduce our earnings and cash flow during the first half of our fiscal year.

We are pleased with our strong start to the fiscal year and we are firmly focused on driving our initiatives and executing in pool season 2022. With regard to our outlook, today, we're raising our full year fiscal 2022 outlook to reflect three discrete items. First, our updated views on inflation for the full year; second, contribution related to M&A transactions closed in the first half of the year; and finally, our second quarter beat our internal expectations.

We expect sales of $1,575 million to $1,610 million, representing an increase of 17% to 20% compared to the prior year. At the midpoint, this is an $85 million increase compared to our outlook in February, and the growth rates compare favorably to our long-term growth algorithm of mid- to high-single digits. Our outlook reflects an expectation for 10% inflation for the full year compared to 5% previously. And our outlook now includes $45 million in sales related to M&A compared to $30 million previously.

We expect gross profit of $700 million to $715 million, which implies a small improvement to gross margin compared to the prior year. At the midpoint, this is a $38 million increase compared to our outlook in February,

and the improvement in gross margin over the prior year is in line with our long-term growth algorithm of flat to positive 25 basis points per year.

We expect adjusted EBITDA of $315 million to $330 million, representing an increase of 16% to 22% compared to the prior year. At the midpoint, this is an $18 million increase compared to our outlook in February, and the growth rates compare favorably to our long-term growth algorithm of low-double digits.

We expect net income of $178 million to $190 million and adjusted net income of $193 million to $205 million. We expect diluted adjusted earnings per share of $1.02 to $1.10, representing an increase of 20% to 29% compared to the prior year. At the midpoint, this represents a $0.06 increase compared to our outlook in February, and the growth rates compare favorably to our long-term growth algorithm of mid- to high-teens earnings growth.

There is no change to diluted share count, which we estimate to be between 187 million to 189 million shares. This range does not include the impact of any additional share repurchases that may be completed during the second half of fiscal 2022.

With regard to capital allocation, we have a balanced and disciplined approach, and our priorities remain as follows: Our first priority is capital structure. Our second priority is to invest in growth through both capital expenditures and M&A. We continue to execute our fiscal 2022 capital expenditure program. And as demonstrated by our updated outlook, we continue to make progress on our pipeline of potential M&A opportunities. Our final priority is to return excess cash to shareholders. We have $148 million remaining under our share repurchase authorization, and we will continue to evaluate opportunities to repurchase shares based on our financial position, investment opportunities to drive growth and market conditions.

In summary, during the second quarter of fiscal 2022, we generated record sales, reported positive EBITDA and continued to see strong results from our growth initiatives. And we're grateful for the contributions of our entire team as they continue to execute at a high level in the current environment.

And with that, I'll hand it back over to Mike. Thank you.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Steve. I'm going to wrap up by reiterating the strength of Leslie's offense and defense. I'll start with our defense and remind you of four key attributes of our business. One, we are benefiting from strong secular macro trends that are driving durable consumer demand and are showing no signs of slowing. Two, we operate in an industry that is able to pass costs through to consumers, and we have the ability to take pricing action to protect product margins. Three, more than 80% of our assortment is non-discretionary and benefits from recurring annuity-like demand. And four, we have a long history of strong and consistent free cash flow generation that enables both continued investment in our business, as well as opportunistic return of capital to shareholders in the form of share buybacks.

To ensure we continue our track record of growth, Leslie's has a high powered offense with four important attributes. One, we have tangible strategic growth initiatives and unique to our industry omni capabilities that are driving meaningful results and are still early stage in their development. Two, our multi-pronged PRO initiative continues to scale. Three, we have set ourselves up to capitalize on robust M&A opportunities we continue to see in the pool and spa industry. Four, great execution by our merchandising team has put us in a favorable and advantaged inventory position.

With both a strong defense and a strong offense operating in a unique and advantaged industry with a track record of 58 consecutive years of growth in all types of macroeconomic conditions, we believe Leslie's is uniquely qualified, positioned and advantaged to continue to win in the market.

With that, I'll hand it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Ryan Merkel of William Blair. Please go ahead.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Hey, guys. Congrats on the quarter.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Thanks, Ryan.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thanks, Ryan.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

So, first off, thanks for all the details in the deck. It's really helpful. I was hoping you could address the pull-forward question again because from a high level it looks like you're a COVID winner. Your top line has been very strong, stronger than typical history. So, have you tried to calculate a potential pull-forward estimate, or is this just not your view because of the macro drivers and share gain and price?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Ryan, I would say it's not our view, both for the reasons you stated and also due to the fact that we track that very carefully. We're able to see by consumer what they purchased prior years versus what they've purchased year-to-date. It's one of the things that we try to pay a lot of attention to. And we just haven't seen any indication of any meaningful pull forward.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Okay. You see robotic cleaners up 74%. That's sort of jumps off the page. You don't think people are sort of pull-forwarding some of that?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

No. I think, look, robotic cleaners are just a much better product. And [ph] other (00:30:29) manufacturers have done a great job with them. My neighbor just calls me and says, I need a new cleaner, what do I need? And I gave him – point him to our website, of course, with no discount, I might add. And I said, do you want one of these robotics? And the first thing he said, well, they seem expensive. I said, you got to see it work. And he got it and then literally sent me, texted me a short video of him watching his robotic cleaner work. So that robotic cleaners, that's just – there's a natural replacement cycle for cleaners. And I think it's been accelerated by just a – it's just a much better product.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Okay. Well, thanks for that. Still a question I guess I wanted to ask. And then weather hasn't been great here in the north. Was there any impact to April there? And if so, is that something you can make up [ph] for the season (00:31:24)?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. April – well, let me speak to the quarter, right? In quarter two, I think the weather was slightly positive, and I think I would call April slightly negative but not a big impact either way.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah, not atypical, Ryan. Shoulder season, right? So late March and April and then we – when we get into kind of late September early October, you're going to have some weekly weather trends that have impact week to week. The one thing we always talk about is it always gets warm and pools always open up. And otherwise gets cold and pools always close down and [indiscernible] (00:32:05) seasonal market. But, again, from a base maintenance perspective, it's about the core season, not necessarily the single day that it opens – the pool opens or starts getting used or closes.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Great. Thanks. Best of luck.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thanks, Ryan.

Operator: Our next question is from Simeon Gutman of Morgan Stanley. Please go ahead.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Hi, guys. This is Michael Kessler on for Simeon. Thank you for taking our questions. First, I wanted to ask about the updated and raised guidance on top line. I think if you add the updated inflation view plus the M&A view that, I think, basically gets you to the updated sales and raise sales guidance. I guess, number one, is that right? And I guess that would imply relatively unchanged, I guess, go forward underlying volume consumption – I guess, assumptions. Is that just, I guess, general kind of prudent conservatism as we move through the year, or are you going to call out as far as thinking about anything ex those two discrete factors?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Great. Thanks for the question. Yeah. So as we look at inflation, that 5 percentage point increase from 5% to 10% is going to contribute $50 million to $60 million of top line. We talked about the M&A at about $15 million contribution with the remainder coming from the [ph] Q2 beat (00:33:26). So, you're right, and we've talked about this in prior years where we're at the doorstep of season and so we've largely [ph] let (00:33:31) the go-forward look unchanged and just updated guidance for those three discrete factors.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. And you mentioned no signs yet of consumer response as far as the macro, still positive tailwinds. [indiscernible] (00:33:49) you mentioned of any signs of either trade down or pullback. I guess, what are you guys looking for as far as whether that may or may not happen, recognizing the vast majority of your business is non-discretionary? Are there areas where the consumer could still choose to either trade down or pull back in certain ways? And I guess how are you kind of thinking about that given the well-publicized stress on the consumer world right now? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I think what you're seeing in our business is non-discretionary nature, the vast majority of it, and recurring demand. And I know we say that a lot, but it really starts to prove itself in situations like this. We – if we have one business that is underperforming the others currently, it would be our rec business and – recreation products, floats, pads, basketball games, that sort of thing. We have seen some weakness there, but that's a single-digit percentage of our total business. And in the core businesses of chemicals and equipment and parts and repair and maintenance, we have not seen any indication of a decrease in demand.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Good luck for the rest of the year.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thanks.

Operator: Our next question is from Steven Forbes of Guggenheim Securities. Please go ahead.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good evening, Mike, Steve. I just want to focus on loyalty number, behavior or maybe data. Any thought – we would love to hear an update on average spend per member, maybe average wallet share penetration, really any insight as we think about how your member base, specifically your loyalty member base, is leaning into the likely value proposition in terms of their dollar spend.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Let me – thanks for the question, Steven. Let me quote a couple of numbers on the file, ex the Texas impact. Because it was – it's pretty extraordinary in terms of our dynamics as well as our comp and sales. So, for the quarter, ex-Texas, the target file growth was just north of 8% and the loyalty file growth was just north of 6%. So, not that double digits that we've had in the past, but we have spoken about those two particular initiatives starting to moderate at some point. We came out with some opportunities, low-hanging fruit opportunities, I would say, the switch to digital marketing early from direct mail, and we got some outsized performance in the first eight quarters, that's moderating a little, but still look very satisfied with the results.

In terms of the loyalty file, spend is still about 2 times our non-loyalty file and it's helping grow customer lifetime value, grew another 7% in the quarter on a three-year look back. So, we feel good about the dynamics with the loyalty customer. The one thing that we are tweaking in our loyalty program is – and this was a little bit self-inflicted, our Endless Aisle operations from the stores, which drives a nice chunk of business, had what I'm going to call a non-optimal loyalty signup. And we saw that reduced loyalty sign-up rate, some impact in the stores. That's since been corrected, much smoother operation now, and I think that'll pay – that'll be very well received by consumers and should pay some dividends in customer loyalty signup in store as we go forward. But overall, I feel good about where we are with loyalty.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And maybe just a quick follow up on the PRO Affiliate program given the growth that we saw here in the number of agreements. Any update on the volume commitments from those partners? And any updated thoughts on the optimum number of affiliates you see across the network?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We haven't quoted the PRO Affiliate vendor agreements terms in terms of sales specifically, but they're unchanged. And we see good momentum here. We said 2,100 in – at the end of the quarter. We're seeing that continue to build. I think, today, we're somewhere north of 2,300. The only thing I would say about the PRO business is the demand is very strong. If we have had some supply chain constraints, specifically with equipment, it has been in the PRO channel. So that's something we're working very diligently on with our vendor partners for PRO equipment. We could use [indiscernible] (00:39:04) a little bit more supply there.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you. Best of luck.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Thanks.

Operator: Next question is from Andrew Carter of Stifel. Please go ahead.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey. Thanks. Good evening. First thing I wanted to ask about is kind of the gross margin. You did get some product higher occupancy leverage against kind of the business mix. Any way to quantify how big the business

mix drag is? And within that kind of the product, I'm guessing private label penetration overall is still growing, but I would also guess a year ago you comped higher equipment sales because of Texas, therefore a margin benefit. Any extra added color you can give us there? Thanks.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Great question, Andrew. Interesting and looking back to last year second quarter, actually, inverse happened. So we actually saw less private label penetration as a result of the need for any and all equipment available in that Texas market to get equipment pads back up and running. So we saw a good kind of normalization, such increase over 2020 levels from a penetration perspective for proprietary products in the second quarter of this year 2022.

And then from a overall perspective on occupancy versus product margins, I would kind of point you back to roughly $25 million per quarter from a overall occupancy perspective. And so you can kind of do the math on the occupancy impact for second quarter. Again, remember, first half, first and second quarter, lower volume sales quarters and so has an outsized impact. And as we get to the back half of the year, it'll certainly moderate from a magnitude perspective.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Switching gears just a little bit to the days inventory, I think I got 116. It's up from the prior year. Some of that's inflation I would assume the 10% product. But what is kind of the right level, and I know there – it's kind of a mixed bag. You're carrying a lot of strategic inventory, but there's probably areas you wish you could. Any kind of right level – what you think the right level of days inventory is for this business?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. It's a great question as well. I think in the current environment more inventory is better. So, we're pleased with being up almost $70 million year-on-year, up about 24%. As Mike stated, there have been some opportunities for us to – where we wanted more inventory. And if we can strategically identify opportunities with our vendors to bring inventory in quicker, we're certainly going to do that.

As you look a bit through the seasonality and look at that inventory number at the end of the second quarter, we are pre-buying and pulling inventory in to get it through our self-distributed network. It's one of our competitive advantages. We have the inventory either sitting in our distribution centers or moved out to our store locations, allows us to more quickly replenish stores and direct inventory to where it can meet the most consumer demand. And again, that's whether through physical locations or through digital channels as well.

And so when you look at the second quarter, it's less from eight day sales on hand and more on operating efficiency to get as much in the channel as possible so that we can manage through kind of the start of season. And then when we get into kind of mid to tail end of Q3 and into Q4 is when we're working through replenishment cycles in order to manage inventory down towards the end of the year. So, hopefully, that's helpful as you think about the cadence of inventory coming into the system and then selling through.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. I'll pass it on.

Operator: Our next question is from Garik Shmois of Loop Capital. Please go ahead.

Jeffrey Stevenson
Analyst, Loop Capital Markets LLC

Q

Hi, this is Jeff Stevenson on for Garik. Thanks for taking my questions today. Yeah. My first question was about mix. Previously you highlighted hot tubs and PRO being more front half of the year weighted. My question is, how was mix in the second quarter and is that front half weighting still the right way to think about it?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah, that's a good question. Absolutely still true. When you think about both PRO as well as hot tub, it's going to be a little more consistent through the year when you think of professionals taking care of bodies of water more likely to be open year-round, have more stable business throughout the year as well. And so, it can have a outsized weight in the first half of the year, which certainly grown at that part of the business at a faster rate, so that has had some impact, not overly material.

And then when you look at hot tubs, primary selling season kind of late fall and through early spring, so it certainly has an impact as well. It's still the right way to think about it from a seasonality perspective. And with the growth in both of those businesses and some acquisitions that we've completed, a little more heavily weighted than in the first half, but no more than a few percent.

Jeffrey Stevenson
Analyst, Loop Capital Markets LLC

Q

Okay. Great. No, that's helpful. And then how should SG&A track the rest of the year?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Also a great question. So if you look at SG&A for the quarter, it was relatively high at $19 million increase or up 27%. And we've talked a lot about how we invest through the entire year. That includes investments in the first half where it can have an outsized impact on overall performance. If you break down that SG&A increase of $19 million, sales growth drove about $11 million of that including non-comp from M&A transactions. Together, that's $11 million incremental costs which generated cost to leverage of about 80 basis points.

To get to the $19 million, there's two other items that accounted for about $4 million each. These are basically investments to support our growth. And then the add backs that you can see in our earnings release related to stock comp costs, third-party project costs and other items. So when you think about the back half of the year, we do expect to get leverage on our operating leverage on our SG&A. It's baked into our guidance which 17% to 20% top line growth, fairly similar metrics from an EBITDA perspective.

Jeffrey Stevenson
Analyst, Loop Capital Markets LLC

Q

Great. Thanks and congrats on the great quarter.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thank you.

Operator: Our next question is from Jonathan Matuszewski of Jefferies. Please go ahead.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Thanks for taking my questions and thanks for all the color and the prepared remarks. First question, average sales per customer is growing faster than inflation. Maybe if you can just unpack that a little bit. On the chemical side, it makes me think that the frequency of water testing is likely rising at a faster rate than active file growth. And you rolled out AccuBlue water testing in the stores several quarters ago, but is that kind of the gift that keeps on giving, or just if you could elaborate that – on that a little bit?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Happy to. The average ticket in Q2, average order value was up 18%. Transaction count was up 1%. That's how we get to the 19% sales growth. And I think where we see AccuBlue Home is, the impact there is that average order value has a component of product cost inflation in it, our pricing. It also has a UPT driver in there, units per transaction. And we have a growing increased use of AccuBlue in stores. I wish it was AccuBlue Home. We're not there yet.

AccuBlue in stores, tests were up double digits, strong double digits. And we know from tracking the prescriptions that there is almost invariably, almost 100% multiple components to the prescription. And with the conversion rate we have on prescription, that's helping drive UPT. So, more people testing the water. The more they test the water, the more they continue to. And the prescription is driving a total solution that, that has multiple components in it.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

That's really helpful. And then just a related question on consumer behavior. Last quarter, you alluded to some customers buying 20-pound or 35-pound chlorine bucket, maybe instead of 50-pound bucket. Maybe it's because of sticker shock or whatnot. Did that dynamic happen at all in this past quarter? If so, it would make me think that the business is almost seeing the antithesis of pull forward in that more future trips would be required to appropriately sanitize pools. Any color there would be great.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. This is a little bit an output of our supply. We've been in better inventory positions in smaller bucket of tabs, and we've been probably tightest in 50-pound buckets on our digital business. In the digital business, when they're tied on 50-pound tabs that we typically convert that to a 35-pound bucket with a buy online pick up in store.

So in some respects, our supply chain has traded people down a little bit. And I think as we saw in Q1, there's still anecdotal evidence from the stores that some people come in and think, wow, that's – chlorine has gotten expensive, I'll buy a little bit smaller bucket. So, yeah, I would agree. I started with the first question saying we don't see any evidence of any significant pull forward. And in fact, with UPT, I think we're seeing kind of just the opposite. People buying more items but perhaps smaller quantities.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Great. Thanks so much.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thank you.

Operator: Our next question is from Peter Benedict of Robert W. Baird. Please go ahead.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Oh, hi, guys. Thanks for taking the question. I guess, Steve, you'd mentioned kind of systems as part of your SG&A discussion and sound like it's a big number dollars. But I just thought I'd ask you about maybe what you're doing on the systems front and what you're investing in and what maybe some of the payouts are expected to be, I don't know, new stuffs coming on for next year or what have you. But that's my first question.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Great. Thanks, Peter, for the question. So some of the systems we're investing in are still related to omni, some of the improvements from a – the Leslie's Connect certainly continue to work on AccuBlue Home and working on merchandising as information systems as well, both planning – inventory planning as well as financial systems for inventory. And then finally supply chain, so looking for opportunities to continue to invest behind supply chain technology to improve efficiencies and manage the volume of business that we're doing in the current environment.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

That's great. Thank you. And then, Mike, I guess, your comments on the [indiscernible] (00:50:11) Trichlor pricing outlook and supply demand was very helpful. Just curious on the volumes that you've been able to secure, I guess, as you look to next year, 2023, and any perspective on that, how that maybe compares to where – what you were able to do for this season? That's my next question.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Peter, thanks. Appreciate the question. I'm going to be a little vague because, if you'll remember, on this year, when we were asked about how much more Trichlor we end up procured, we kind of held our answer at more. And I'm going to say we're happy with our current supply, though the flow of it could be a little more front loaded. Still, pleased with the supply.

We're in line to buy even more next year. No need to feed the machine we've created for chemical consumption and the growing consumer file. And we're in the process of procuring that right now with discussions. And I would say, look, with our suppliers, our primary suppliers, which are our long-term partners, we've talked before about contracts. In the current situation, I'm going to say that relationships are more important than contracts, and we have a great relationship with our suppliers there and look forward to again being able to significantly increase our supply of Trichlor tabs for next year.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

That's helpful. And then, I guess, just my last question. Have you talked about the AccuBlue repeat rates in the stores? I mean, clearly, it's getting used. And you talked about how it's driving more units per transaction, et cetera, that – and any perspective on how the repeat rates have been on that? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I think more than repeat rates, we just – we track the number of tests, right? And I will tell you that, in the stores, traffic for the second quarter relatively flat. But we saw a very nice increase in AccuBlue testing. So, we're getting a higher percentage of people coming in the door that are testing and overall testing, like I said, up strong double digits versus the prior year.

And I think it points back to, we talk about the increased, heightened attention to safety and sanitization. And thankfully the pandemic, I'm going to say, is under more control, but it's not going away. And one of the lasting effects is people are still very vigilant about safety in general and specifically about safety of the pools when it involves friends and family. So that's why we see an increase in testing, I believe.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Got you. Okay. Thanks so much.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah.

Operator: Our next question is from Peter Keith of Piper Sandler. Please go ahead.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey. Thanks so much. Good afternoon. You had mentioned in the script about a 30% increase in marketing spend. Maybe with more specifically digital marketing spend. And either way that's a pretty sizable increase. So I was wondering if you could highlight some of the dynamics you're seeing, some of the benefits. Is the market getting more competitive or is it purely a function of a good ROI on what you've been spending so far to-date?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Good question, Peter. And it's a combination of the two. We had said in previous calls we were going to increase the marketing budget 30%. With the success we're seeing and the ROIs we're achieving, we're actually

increasing it up and over that 30%. I will say at the same time, yeah, the market is becoming more competitive. Costs per click have gone up. But we're in an enviable position to both have the means to invest and the ability to very specifically track our ROI.

So the way we look at modern – marketing, we think is a modern take on it, which is we start with a budget. But when we're in season and really starting in the month of April, as we look at the ROIs we're achieving on our different tactics, digital, social, still do some direct mail. We track that as well. Then we'll go up and over what our original budgets were planned to feed our high ROI tactics. And that's what we're doing right now.

Peter Jacob Keith
Analyst, Piper Sandler & Co.
Q

Okay. That's great. And then we look at the PRO stores and I guess maybe specifically that the PRO remodels, you'll have 79 going into the PRO season – excuse me, going into the pool season. What is the comp lift that you're seeing? Maybe both year one and now that you've got some in the second year, maybe – is there also a year two benefit overall?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.
A

Yeah. We haven't quoted a specific comp lift, but what we've referred to is that they are rather handling handily outperforming our pro forma. And they are outperforming the residential stores in their corresponding districts. So we're quite pleased with how they're performing it. We had said we are going to do 25 conversions. We're actually doing 29 [indiscernible] (00:55:42) more within great locations that lend themselves to a PRO conversion. And also, frankly, on that, we were somewhat constrained potentially by the amount of extreme that's available. And there's supply chain issues in putting a store together as well. The teams have worked really hard to be able to get to materials to allow us to take it from 25 to 29.

Peter Jacob Keith
Analyst, Piper Sandler & Co.
Q

Okay. Very good. Thanks so much.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.
A

Yeah.

Operator: Our next question is from Yu Chen Duan of Bank of America. Please go ahead.

Yu Chen Duan
Analyst, BofA Securities, Inc.
Q

Thank you for taking my question. This is Yu Chen on for Liz Suzuki. My first question is about pool installation and how many new pools do you estimate were installed in 2021, and how did that compare to 2020 installations? And what does the new pool backlog look like? Do you think there will be a net increase in the total number of residential pools by the end of the year versus pre-pandemic? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.
A

Yeah. Thanks. Thanks for the question. I'm going to start the answer by saying this, as I kind of simultaneously look for the pool information, but the pool – new pool builds are going to run about 2%, we believe. We ran about 2% in 2021 and the same this year. That's up a base of about 5.5 million installed. So, 110,000 to 115,000, maybe as high as 120,000 new pools each year. And that's a nice tailwind to our business. If we maintain our market share, we should see about a 2% lift to that. But we don't build pools and we don't sell a lot of the components that go into a new pool build outside of equipment and chemicals and some of the white goods. So it's a nice tailwind to our business, but it's not essential to our business. Our real business is the 14 million bodies of water that are out there that need ongoing non-discretionary maintenance. So that's what we're – that's where we're really focused on.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

The data point for 2021 is 117,000 new residential in-ground pools. And a lot of others in the industry have talked about the pool backlog continuing to extend post this year even into 2023. So Mike's sitting on the right point. We take care of the residential aftermarket. So after that pool is built, you've got a 30-year asset in the ground that you need to take care of from a sanitization perspective, year in, year out. And that's our biggest opportunity.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. And I would...

[indiscernible] (00:58:31)

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

...sorry for ruffling around papers here, but page 10 in the...

Yu Chen Duan
Analyst, BofA Securities, Inc.

Q

Yeah.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

...supplemental deck lays out kind of the most current data we have, which we get from P.K. Data, which is probably the most comprehensive source for pool and spa industry.

Yu Chen Duan
Analyst, BofA Securities, Inc.

Q

Okay. Got it. And my follow-on question is about shift to saltwater. What percentage of the current base of pools were saltwater? And has there been an increase in saltwater conversion? And do you see the conversion a net positive or a negative for your business?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I don't – Steve, maybe you do, or we can get a number on the saltwater pools. But the way we think about this question is we sell salt systems and salt cartridges. And actually, a salt pool owner, consumer is worth slightly

more to us than a tab consumer. So, the way we think about it is we're agnostic to whether you want to sanitize your pool with chlorine tabs or with a salt generator. And actually, there's a slight upside to us if you go to salt-generation route.

Now that being said, we have seen salt cells roll at a faster rate than they have in the past. But it's a tough economics for a lot of people to convert. New pool builds, yeah, like more than half of them are salt, which like I said, we're fine with, agnostic too. In terms of putting a salt system in, the purchase and installation runs $2,000, $2,500 plus. Even with the increased price of chlorine tabs, like I said, from $99 to $199 for a 35-pound bucket, medium-sized pool only needs one bucket for the pool season.

So, when you think about it, the consumer's got typically a nice home, a big asset in a pool, and it costs them $100 more to sanitize it for the season. They're not happy about that, but the alternative is a $2,500 salt cell system. We don't see – we see a lot of people not let the price increase in tabs, but understand it's the most economic decision.

Yu Chen Duan Q
Analyst, BofA Securities, Inc.

Okay. Understood. Thank you.

Michael R. Egeck A
Chief Executive Officer & Director, Leslie's, Inc.

Yeah.

Operator: Our final question is from Dana Telsey of Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey Q
Analyst, Telsey Advisory Group LLC

Good afternoon, everyone. As you think about the chlorine market and the percentage of Trichlor that's coming from international, what is that percentage? How is it changed? And it sounds like that price differential is much higher. Is that accounted for in the price increases they are taking? And when do you expect to be in a comfortable spot with the availability of chlorine? Thank you.

Michael R. Egeck A
Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Good – great questions. Our take on the amount of imported Trichlor that came to the market this year is about somewhere between £90 million and £100 million. And we don't have exact data on that, but we think it's pretty close working with the different manufacturers and the importers. That's across what is a total supply of somewhere between £230 million to £250 million.

So it's not quite a third of the [indiscernible] (01:02:12). And as we've said in the past, some Trichlor imports could come down when additional Trichlor capacity comes up in the US. But the kind of newer information that we have is what I went through in the script that the chlorine input from North America is now a limiting factor and chlorine imports from China, which is a big – the biggest exporter [indiscernible] (01:02:47) are tough economics.

So what I would say is that the current pricing in the market reflects where people have become comfortable with margins at those higher imported prices. So I think when we look out to next year, supply will continue to be tight. Inputs will continue to be high. They could potentially go higher, but we certainly don't see them coming down.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Dana, the one thing I'll add because we sometimes get this question is, well, what if just more chlorine manufacturing capacity comes online globally? And from what we understand, it takes about four years and $1 billion to build a core alkali plant. So I'm sure there's some in the design phase, potentially domestic, but we don't know of any – but I would say probably overseas, but it takes time. There's no quick remedy to the supply side.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Very helpful. Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would like to turn the call back to management for closing remarks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Thank you, operator, and thank you, everybody, for joining us. We're really looking forward to pool season 2022. As we talked about, we feel we're in a great position with our inventory. We just had a bit of a town hall and our retail store leadership in here. Everybody is fired up. We're getting great returns, as we mentioned, on our digital marketing. So we feel like we're set and certainly looking forward to the season and for sharing the Q3 results when we get them. Thank you.

Operator: This concludes today's conference. Thank you for joining us. You may now disconnect your lines.

Exhibit 2

06-Jun-2022

Leslie's, Inc. (LESL)

Baird Global Consumer, Technology & Services Conference

CORPORATE PARTICIPANTS

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

OTHER PARTICIPANTS

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Okay, great. Well, good morning, everyone. Welcome to the Baird Conference in person. Thank you all for showing up. I'm Peter Benedict, Senior Research Analyst covering retail, consumer products and services. Really pleased to have the management team with Leslie's with us this morning. Leslie's is the largest consumer facing omni-channel brand in the US aftermarket pool and spa care industry. They operate over 950 stores across 38 states.

Joining us from the company, we have CEO, Mike Egeck; and CFO, Steve Weddell. Mike is going to start off with some opening slides and remarks and then we're going to kick into some Q&A. During the conversation, if you have any questions, you can email me on the iPad Session 2 at rwbaird.com, and we'll do our best to work it into the end of the conversation.

So with that, I'll turn over to Mike.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Peter. Thanks everyone in the room for joining us today and also those joining via webcast. It's great to be here. This is actually Steve and mine's first live conference, I mean, since we went public. If you could please note we put a brief deck, a few slides on our Leslie's IR site to supplement this discussion. And also note on there, page 2 is the requisite disclaimer.

I'm going to start by saying I know top of mind for many of you is now that Memorial Day has passed and we're into the start of the pool season, house business is trending. There's two things I want to point out about the start of this year's pool season. First of all, many of you remember last year at the start of the season, there was a provision, I'm going to say, and a significant media coverage of the [indiscernible] (01:51).

And that media coverage really drove the spike in business. In Q3 last year, our Q3 chlorine sales doubled and we had an all-time record there. This year in comparison, it's been a relatively slow start to the season due to the colder wet weather in the northeast, which I'm sure many of you are familiar with, and also out on the West Coast it's an unseasonably cool start to the season. Both of these factors are part of the timing. And as we've discussed before, the beginning of the season and also the end of the season can be a few weeks either way.

The important thing to understand is that the demand is recurrent in nature, so you want those moves doesn't impact the entirety of the season. But this is what we'd like to point out. Our Q3 historically is 60% to 70% of our second half profitability. Last year, in Q3 [indiscernible] (02:29). It was toward the high end of that range. This year, given the factors we've just discussed, we expect our Q3 to be below the midpoint of that range. To be clear, this isn't changing anything in our full-year guidance that we offered on May 5.

With that out of the way, Steve and I'd like to cover a few slides. For those of you who aren't familiar with Leslie's, we are the largest DTC brand in pool and spa care industry. We operate now 970 physical locations, which is more than our total largest competitors combined. Our digital sales across our proprietary and marketplace sites are 5 times larger than the next largest digital competitor. We've grown every year since we were founded, and we went public in October of 2020.

Our fiscal 2021 record year, which ended October 2, 2021, sales growth of 21% to $1.3 billion and adjusted EBITDA growth of 48% to $271 million. Fiscal 2021 is our 58th consecutive year of growth, which is something the company is very proud of.

When we think about the business and what makes us unique in the space, there's really three pillars. The first is that we operate in one of the most advantaged consumer products industries. It's large. It's based on 14 million bodies of water, and it generates about $14 billion in aftermarket sales.

It has a non-discretionary, recurring, annuity-like demand, because once you put a pool in the ground, you have to maintain it; really no other options. It has predictable growth. The installed base has grown every year for 52 years.

To take advantage of those industry dynamics, we build a consumer-centric, integrated network capacity and capabilities that's unmatched in scale and range, and allows us to provide full pool/spa care solutions to all consumers, whatever they need, and wherever, whenever, and however they want to engage with us. Important to note, none of our competitors have that capability.

The third unique pillar is that despite being the largest DTC brand in the space, we have significant white space opportunity available to us across all the consumer groups we address and of all the channels we operate in. And we've got the talent, capabilities, and six tangible growth initiatives to take advantage of those opportunities.

I'm going to have Steve come and talk a little bit about the financials.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thanks, Mike. So I'm going to cover some financials real quick. First half highlights on slide 6, you can see we generated strong results in the first half of the year. Sales were up 22% to a record $413 million, with broad-based strength across the three consumer groups: residential pool up about 15%, pro pool up 27%, residential hot tub up 68%. Comp sales of 16% on a two-year stack basis, that's a 48%, and the gross profit for the first half was a record $153 million, with margin rates expanding 40 basis points to 37%.

Adjusted EBITDA was positive $10 million. Historically, if you look back as business has been kind of flat to sometimes negative in the first half, so pleased with the positive $10 million start to the year. Most of our earnings obviously come in the back half.

If you look on the right-hand side you can see as well from an M&A perspective, we completed two transactions this year. We have three more under LOI. With those completed, we will have eight transactions in the last year and a half. We've talked a lot about it being a key lever of growth for our business and certainly have some momentum behind us.

On slide 7 covers some guidance based on what we provided back on May 5. You can see sales growth of 17% to 20% which compares favorably to our long-term growth algorithm of mid- to high-single digits. Gross profit guidance implies a small improvement in gross margin, which compares to our long-term growth algorithm of flat to positive 25 basis points. Adjusted EBITDA increase of 16% to 22% year-on-year, which compares favorably to our long-term growth algorithm of low double digits. And finally, adjusted net income growth of 20% to 27%, which compares to our long term growth algorithm of mid to high teens.

And with that, I'll turn it back over to Peter and we'll get started on the Q&A.

QUESTION AND ANSWER SECTION

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Perfect. Thank you, guys. So I guess just following up on Mike's comments, so 60%, 65% of second half profits probably flow into the third quarter this year versus maybe 70% last year. How do we think about that from a revenue standpoint? Is it going to be a similar split there or can you give us a sense of maybe the revenue split 3Q, 4Q as you see it?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, I think that that's...

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Can we get this mic on? Please? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Do you want me to answer that? There you go. Oh, I'm on. Perfect. Yeah, I think you can look at that 60% to 70% historically in Q3. Last year was at the high end for what we talk – the reasons we talked about. This year will be toward the lower end. And you can see that pretty much up and down the P&L.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Right. Great. Thank you. And I guess the other question would just be maybe on inventory. So, I mean, inventory has been a popular topic in retail for the last couple of weeks. How does inventory look for you guys? How do you feel about that given the flow of business?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Sure. Yeah. We took a – made a strategic decision last year at a heavily invested inventory. To remember, most of the inventory that we have is non-discretionary. It's not subject to fashion, risk or obsolescence. Now, if you look at the end of Q2, our fiscal Q2, effectively the end of March, up $70 million or up 25%. So we worked very hard and closely with our vendors to procure effectively as much inventory as we can to meet the heightened demand that we see today, and it's a competitive advantage. So, feel very good with our inventory position today. Do expect there'll be some spot outages, though. I think supply chain is still a little challenged with certain vendors, and we're working through it, but feel very good going into season.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Okay, great. So before we dive a little bit more into the business, there's kind of three macro questions we're going to try to ask each of our companies that are presenting with us over the course the next three days. And just got a quick, quick response here and then then we'll get into more detail. So first is on inflation, maybe, how would you characterize the overall pace of inflation in your business today versus maybe a few months ago? Is it accelerating, decelerating or pretty much the same?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yes. We've seen acceleration over the last six months and of the last few months as well. We do feel like it's going to peak in the current quarter. So we've seen inflation in our business for the last year and a half, but I think fairly idiosyncratic with some of the products that we have, primarily chemicals and major equipment. But as we said, we feel like it's going to stabilize with where we're at going in the back half of the year.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Supply chain, how would you characterize the current state of your supply chain versus a few months ago? Is the floor product getting better, worse, or pretty much same?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah, great question as well. So tighter than pre-pandemic, much better than last year. So again, back on inventories, feel good with product flow. Still have our opportunities, but that's typical as we get into season.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Great. And then the last was on consumer behavior. You guys were very needs based recurring revenue. But are there any notable changes you've observed in your consumer and how they've behaved here over the last few months?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, good question. We really haven't seen any significant change, and we think that's for two reasons. The recurring non-discretionary nature of the demand, right, once you put pool in, you have to maintain it. And pool owners tend to be middle class, upper middle class or higher. And we haven't seen inflation really impact them yet.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Okay, great. So let's talk a little bit about the pool industry, maybe give us a sense for the key macro dynamics that investors need to think about what drives demand in the sector. We're thinking installed base, population trends, usage, what can you set the stage there for?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. There's really five big macro secular trends that are driving demand in the industry. The first is people continue to invest in their homes and backyards. Second is they're wanting a healthy outdoor lifestyle, which pool is part of that. The third is and this is important and significant is the migration to the Sunbelt. When you look at population trends across the country, the West and the South are growing 10 times faster than the Midwest or the Northeast.

And then work from home or hybrid schedules where people are just spending more time in their homes and using their pools more often, very important pillars. And also the pandemic really just heightened everybody's sense of safety and sanitization, particularly around families, in our AccuBlue water testing, which actually puts a number on pool safety, is proprietary and unique to us. Really, really a distinct advantage and it gives pool owners that peace of mind that they can invite families, friends, put their own kids into a pool.

A couple of other interesting things we've seen lately is that with people spending more time at home, there is been for our business a little bit of shift back to do-it-yourself. People are home, they're spending more time with their pool and they're taking an increased interest in the safety and sanitization to that pool so a little more increase in DIY. And with that, we also see people shopping in the specialty channel a little bit more. There's been some specialty share capture from mass.

And it makes sense if you're doing it yourself because in the specialty channel you can get that expert advice, you can get the education, you can get that hands on experience in the mass and club channel. That's not really available.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

That's helpful. A lot of investors ask us about the state of the trichlor market, implications for chlorine tab prices. I mean, you've talked a lot about it, but maybe give us your view of the situation. You give a good update on the last earnings call. It would be helpful for this group to hear your view of it and what your crystal ball says about the outlook.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, we get this question a lot and it's a little bit complicated, so I'll apologize to begin with. But this much for sure. Chlorine prices are still elevated and supply is still constrained. And by prices being elevated, we mean two years ago, a £35 bucket of chlorine tabs, which will get a mid-sized pool through a pool season, was $99. Today, that's $199. So the question is, top everybody's mind, what happens when that reverses? And our view on that and our view on that is that there are several factors in play that could keep them elevated. And to understand this, you got to go back a little bit and understand that what consumers call chlorine tabs are actually trichlor and trichlor is made out of three components. There's the raw chlorine; there's caustic soda; and there's urea. And those get combined to make trichlor granules and then those granules get compacted into the tabs. So there was a plant fire in 2020 that took a lot of the tricorder capacity out of the market. That was the first shortage situation and the first increases in prices.

But what we're seeing now is that the actual raw chlorine component is also in a constrained supply and increasing cost situation. And two things going on there. One of the major manufacturers took about 7% of raw chlorine production in North America offline. And then the other is that raw chlorine also goes into PVC. And with the housing industry being strong, it's competing with its use in trichlor and it's a higher value in PVC.

So you take those two together and now all of a sudden the raw chlorine that's available to North American manufacturers is down 20%. The way to get it back – gets made up is with imports. But imports are very expensive. Combination of tariffs, anti-Dumping duties and also specialized shipping and transportation.

Urea, the other component in trichlor happens to be that the major exporter is Russia. So that has its own challenges, and we've seen urea quadruple in price. It's now come down some, but it's been very, very volatile. So when you take – when you take all that together, the plant that was down should come online sometime late this year. But when it does, any absolute increase in trichlor to absolute increase in trichlor to closer to the market is going to have to use either imported trichlor or high-cost imported chlorine. And when you take all those factors together, we think there's a scenario where prices would remain elevated through 2023 and maybe longer. Yeah, well, it's a long response.

Peter Sloan Benedict Q
Analyst, Robert W. Baird & Co., Inc.

Not at all. You do a nice job of breaking it down. That's why we asked. So, the last sector question I have, people ask a lot about saltwater sanitation systems. The penetration of saltwater pools out there and what that means if someone goes to a saltwater pool system, is that good for Leslie's, bad, are you indifferent?

Steven M. Weddell A
Chief Financial Officer & Treasurer, Leslie's, Inc.

Yeah, we are indifferent. So when you think about saltwater pool penetration, kind of high teens. Certainly from build remodel, you're seeing more interest in it. There are many ways to sanitize your pool. UV, ozone, mineral-based salt, traditional trichlor. We find when trichlor tabs are available, consumers tend to gravitate towards it.

When you think about cost of saltwater pool, to install salt chlorine generator, it's about $2,000 to $2,500. You're spending $700 to $1,000 on a salt cell every three, five, seven years. In many ways it is built out as kind of a maintenance free pool. There's a lot of balancing that's required to make sure that that chlorine being produced, as you break the salt down into the sodium and the chlorine, to make sure that it's being effective. And so, for us, we've set ourselves up that we can serve all these customers. You come into our store, you do a water test, we can test your water if you have a traditional chlorine tab pool or a saltwater pool or other forms of sanitization.

So, we've actually found in Leslie's that saltwater customers are actually some of our better customers. They spend more, which makes sense when you think about the cost of putting a system like that in place in your pool, I think you tend to spend more money on the equipment, as well as some of the balancers as you test your water on a regular basis.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Great. No, thanks for that. So let's – when we first did our due diligence on Leslie's prior to the IPO, I think we were struck by just how resilient the business is. We were new to the pool industry, so maybe talk a little bit about how Leslie's in the pool industry has performed through past economic downturns?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah, so it's actually really interesting. If you go back to our earnings deck that we had back in May page 14, we talked about over the last 21 years, and I'll break it down a little bit more detail: sales CAGR of 7%, EBITDA CAGR of 14%. If you look at that during 2006 and 2009, business was up 16%, EBITDA – that's sales; EBITDA was up 47%, comped every year positive. Out of the 21 years, 17 positive comp years. The non-positives were minus 1 the three times and minus 2 the fourth time. EBITDA up 19 out of 21 years.

So when you think about rising rates, higher inflation, declining consumer spending, decline in pool bills, decline in housing starts. All these macro indicators that I think are on people's mind today and for the right reasons, this business is one that has just performed through. And again, you get back to that aftermarket, 14 million bodies of water, 80% non-discretionary. It's not an option to take care of your pool. If you don't sanitize it, if you don't move the water, if you don't filter it, you're going to have an algae problem, you're going to need even more help. So, it's the different business and it's the reason why the business has grown 58 years in a row.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. So, clearly good business. But we look at the competitive landscape, you are the big national player. There's really no material number two there. It's a lot of small mom-and-pops and regionals. So talk about the competitive landscape in residential, and then maybe a thought on where you think you can take your units and what's the unit growth opportunity.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I mentioned earlier, even though we're the largest brand in the space, DTC brand, there is a lot of whitespace opportunities. We have internal studies and external studies that show 700 underserved residential markets and 200 underserved pro markets. And the way we look at those markets is once they're identified, we go in with three options. First option is to build a Leslie's residential store, build a Leslie's Pro store, and the third option is to geo target it, geofence it with digital capabilities and go after the consumers with our digital sites. And those aren't mutually exclusive. Depending on the opportunity, we can do all three.

And the other option when we go in is to look at those sites for M&A, right? It's interesting, the largest shareholder in the pool and spa space is actually 8,000 independent specialty retailers. And they tend to be quite small, one to three units. And I'm going to generalize this, but it's pretty accurate, tends to be husband and wife teams who've been in the business for a number of years. Their children aren't interested in taking over the business. And even though the pool industry's had two great years, it's been tough on independent operators. First year they're

dealing with the pandemic, right? And instead of just running their little shop or their couple of stores, now they're trying to find PPE and figure out how to do curbside service or how to get a hold of the local county officials to make sure that they can stay open as an essential business.

And then, the next two years they're fighting the larger companies like ourselves for supply, and they're finding it difficult to get products. So, it's a very prime M&A landscape right now with the independent specialty retailers.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. So, let's pivot over to customer acquisition and loyalty, two big initiatives for you guys. Maybe give us a sense of the background of these initiatives, where you kind of stand today, and what's the outlook.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. It was really in 2020 started looking at the business and establishing our six strategic growth initiatives. And the first two are really to grow the consumer file, basically add customers, whether through acquisition or retention or reactivation, and to deepen our relationships with them, meaning have them buy more from us, very simply, average revenue per consumer.

And it's been very satisfying these last two years, our progress there, and I'll say there is a lot of low-hanging fruit, right? The company had really just focused on direct mail marketing and not a lot of it. We switched to digital and social marketing. There was a loyalty program, the only one in the industry, but we updated it with our Pool Perks program, which we launched in May of 2021. And the results from those kind of low-hanging opportunities were pretty rapid.

Since beginning of 2020, our active consumer file has grown 35%, our loyalty file has grown 50%, and our average revenue per consumer has grown 18%. So, I mean, in just kind of the simplest terms – and we like to break it down simply in the business as we talk to the associates and our marketing teams – we've got more people spending more with us.

Now, lately if you've listened to our last earnings release, those had both been growing at a double-digit pace. They're now starting to decelerate a little bit. That's expected in our long-term growth algorithm that we put out with the IPO. We really expect to get 100 to 300 basis points of growth from each of those initiatives over the long term. Because there was a lot of low-hanging fruit there, we were able to come out of the gate really strong. So, it's a gratifying result, I'm going to say, to date.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Sure. Absolutely. One other thing that struck us during the initial due diligence was the importance of in-store water tests. I had no idea that that was even a thing, but maybe talk about AccuBlue in the store, why is that a key differentiator for Leslie's. Why is that really a competitive lever for you?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. So, it's a – I'll tell a personal story in this one, because we – before I took the position with Leslie's, I went out and secret shopped with my wife to see what was going on. And we've had pools. And typically, test pools, they put those little test strips, reagents, right, in a little test tube of water and hold it up. Some of our competitors

talk about the theater of the water test. They kind of go like this and tell you, you need some chlorine or you need this outside.

And what we have is a digitized, gamified water testing system that prints out step by step instructions how much needs to be added at what time, in what order. It's really like a prescription is the best way to think about it. But the real key to it, we've discovered, is that it gives you a pool score from 0 to 100. And here's where I get back to shopping the first time with my wife. So I'm walking around the store, trying to pace off linear feed, how much of each type of products in the store? What's it look like? Are the associates paying attention? Meanwhile, she's getting the water tested and I hear this, oh my God. I just turned around and our water score was 30.

And anyway, we walked out with $250 worth of chemicals. And now we have someone who takes care of our pool. When my wife goes every week and has the water tested and hands it to our pool guy like a report card and says, we're going to have to have this score over 85. It's just part of our deal. And that certainty putting a number on a pool score versus kind of the ambiguity of test strips at color that fade over time and are incredibly inaccurate, it has been a total game changer for us in the industry.

And it's really at the base of our competitive advantage, because that's what allows us to give a total pool solution. And we think of our end product is a clean, safe, beautiful pool. It's not about just selling products. We've got lots of vendors who can sell products. But the expert advice, the water testing, the prescription that gets you the desired end product, clean, safe, beautiful pool, that's what's important, and that's what AccuBlue allows us to do.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

That was fantastic. Up until really the last couple of years, there wasn't a lot of omni-channel sophistication or even tie in between stores and online. It's kind of come together maybe at the right time. But you're still in the early stages of talk. Maybe about Leslie's Connect, your omnichannel positioning and what that can do for you going forward?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Personally, I came out of the apparel industry and a lot of sporting goods and outdoor apparel. And for those of you that follow that industry omni-channels is certainly not new news, right? It's been in place for a while. In the pool industry, there really wasn't anyone with those capabilities.

So we set off on a long-term plan to get omni-channel capabilities, the full suite, buy online, pick up in store, buy online, return in store, ship from store, ship to store. And as we're working on this, the pandemic hits. And now all of a sudden, buy online, pick up in store, ship from store, ship to store, all those become critically important as we're trying to manage inventory and ship from our stores, do curbside service. So, we accelerate our efforts there, worked very nicely for the last couple of years.

But, Peter, to your point, we're still pretty early stage there and we will continue to work on it. We call those omni-channel capabilities Leslie's Connect, our apps and important part of that process, as is our sites. So we feel good about the progress we've made, and we certainly did it at the right time. But still, there's sort of more work to do there.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

PRO is just 15% of your sales, but it is one of those growth pillars for you. Maybe talk about how you're going after the PRO. A lot of people in the audience are probably familiar with Poolcorp, so maybe give people a sense for maybe how you're going after PRO versus how they do it and your PRO affiliate program, what kind of success you're seeing there?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, good question. An interesting evolution for the company. I've been there 2.5 years. Steve, five to six years.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Six, yeah.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

For years before that, the company actually treated the PRO customers as competitors because they defined themselves as a DIY business. In 2016, the company got into the PRO business with an acquisition of a small chain in Las Vegas. And what we what we do with our acquisitions is we're buying a business and we're buying talent, but we're also buying a window into new capabilities. And so we learned about the PRO business from there.

And in 2020, we really formalized our PRO initiative, which has three parts. One is to open pro stores or convert residential stores to PRO stores. The second one is what we call our PRO affiliate PRO partner program. And then the third is a PRO website.

And we're moving pretty quickly here. We now operate 77 PRO stores. We have over 2,500 PRO partner contracts. And we – and the website is up and running. So, good start. Our space in PRO is Pool Corp. Large company does a tremendous job servicing in particular, the larger PROS, we've really focused on the smaller PROS, 1 to 3 trucks, maybe 500 to 200 pools. And we did a lot of focus group work with those professionals.

And what came out really clearly was what's most important to them is speed and convenience, right? Basically being where the pools are and that's our whole real estate strategy. 80% of the pools in the continental US are within 20 miles of a Leslie store. And these operators are not that sophisticated, right? They carry their inventory in their truck or in their van. And when they need something, they need it right now. So with almost 1,000 locations, we are just by definition almost always the closest store for a PRO. And once we've kind of embraced them and put up the site and given them the pro affiliate membership, which is preferred pricing, some co-branding opportunities and also importantly referrals because we get a lot of people come in to start asking for PROs that's proven to be proven to be a good combination.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Real quick. It's important to note, too, that the PRO stores aren't that much larger than residential stores. PRO consumers can shop in PRO stores as well as residential, same pricing, a little bit smaller inventory selection. And residential consumers can shop in both as well. So we've actually found that residential consumers, we've seen higher growth in PRO locations than surrounding stores in the district in combination of longer hours, better

inventory selection and larger inventory selection in their shop, one of the PRO shop, right? So it – it's one where we're identifying more opportunities to convert faster because it's powerful for both the PRO consumer as well as residential consumers as well.

Peter Sloan Benedict

Analyst, Robert W. Baird & Co., Inc.

Well, terrific. Well, listen, I've got a lot – several more questions, but we've run out of time. So we will cap it there. We do have a breakout session. So if folks want to jump over to that and ask some questions, that's great. But let's thank Mike and Steve for joining us today.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thank you.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Okay. Thank you.

Exhibit 3

05-Aug-2022

Leslie's, Inc. (LESL)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

Caitlin Churchill
Senior Vice President, ICR

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

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Garik Shmois
Analyst, Loop Capital Markets LLC

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Fiscal 2022 Third Quarter Conference Call for Leslie's, Inc. At this time, all participants are in a listen-only mode. Following the prepared remarks, management will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded and will be available for replay later today on the company's website.

I will now turn the call over to Caitlin Churchill with Investor Relations. Please go ahead.

Caitlin Churchill
Senior Vice President, ICR

Thank you, and good morning. I would like to remind everyone that comments made today may include forward-looking statements, which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change. Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC.

During the call today, management will refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was furnished to the SEC today and posted to the Investor Relations section of Leslie's website at ir.lesliespool.com.

On the call today from Leslie's, Inc., is Mike Egeck, Chief Executive Officer; and Steve Weddell, Chief Financial Officer.

With that, I'll turn the call over to Mike Egeck. Mike?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Caitlin, and good morning, everyone. Thank you all for joining us. And please note that we have posted a deck on the Leslie's IR site to supplement our discussion. I'm going to discuss three things today. Number one, the overview of our Q3 results and underlying performance drivers; number two, the execution challenges in one of our distribution centers that was the primary driver of our Q3 sales and margin shortfall and the steps we have taken to correct the issue; number three, supply chain challenges and increased industry promotions, which also impacted results for the quarter. After that, Steve will review in detail our financial results and change in full year guidance.

Our Q3 performance continued our streak of record results, but it fell short of our internal expectations. Our organization and leadership team fully understand that this outcome is not acceptable, and that we missed a significant opportunity to serve more customers in the quarter. There is a heightened sense of urgency and accountability across our organization, and we are hyper focused on the actions necessary to rapidly and sustainably improve our execution.

Despite our disappointment in underperforming our expectations, our year-over-year performance illustrates our continued market share growth driven by our competitive advantages in serving the aftermarket pool industry. Sales for the quarter increased 13% to $674 million, with broad based strength across our three consumer groups. Residential Pool grew 7% for the quarter, PRO Pool grew 17% and Residential Hot Tub grew 94%. Comp sales increased 7% for the quarter and the two year stack comp for the quarter was 27%.

Page 15 of the supplemental deck utilizes third party credit card data to compare our year-to-date sales performance by quarter versus our competition. As you can see from the chart, we continue to gain share. Gross profit for the quarter was a record $304 million. However, margin rate decreased 250 basis points, driven by business mix, product margin headwinds and DC expense. Adjusted EBITDA was a record $183 million for the quarter.

Moving to the industry backdrop, the pool and hot tub industry continue to benefit from strong consumer demand in the quarter, and the secular trends driving that demand remain intact. First, consumers investing in their homes and backyards. Second, the desire for a healthy outdoor lifestyle. Third, migration to the Sunbelt. Fourth, a heightened sense of safety and sanitization. And, finally, hybrid work-from-home schedules.

With regard to inflation, product cost inflation was approximately 8% in the quarter. For Q4, we are now planning product cost inflation to be in the high single digits and we will continue to manage our suggested retail prices to offset the increased costs.

Now, I would ask you please turn to page 7 of the supplemental deck. Given the noise in our results this quarter, we've included a bridge between our third quarter expectations and our actual performance to help explain the moving parts. As you can see, a significant driver of the sales and margin miss was the result of challenges at our New Jersey DC. We operate six distribution centers in total. And the New Jersey DC, fulfill store and digital demand for our Northeast region. The New Jersey DC shipped about 30% fewer units than planned in the third

quarter, which resulted in significant store out of stocks throughout the Northeast and also impacted our ability to serve digital demand in the region. A confluence of factors contributed to the facility's underperformance.

First, the Northeast experienced wet and cold weather through April and May, which resulted in a late start to the pool season and concentrated demand into June at an unprecedented level. Concurrently, supply chain disruptions moderated, which resulted in unforeseen levels of vendor shipments and DC receiving. And, quite simply, we didn't have the staffing and plan in place to support this combination of factors. As a result of this concentrated demand and unprecedented volume of receipts, we faced operating challenges that significantly impacted our ability to serve customers.

As you can see relative to our expectations, the challenges in our New Jersey DC impacted sales by $35 million and margin by a total of $21 million in the quarter. We reacted quickly to the situation by increasing temporary head count and adding [ph] work (06:27) shifts. By the second week of July, the facility was back shipping to plan, but it was operating with twice the head count of the prior year. Increasing head count in the facility that quickly is highly inefficient. As a result, the facility both underperformed and added costs. The additional expense was approximately $3 million in Q3 and we have planned an additional $7 million for Q4.

We are taking action to ensure that we can manage through potential issues like this in the future. Prior to the start of the 2023 pool season, we plan to implement a seven day a week two shift operating model for all of our DCs and add additional three PO partners in specific trading areas, including the Northeast. This will ensure that we have the additional capacity to navigate potential headwinds like this in the future. Outside the impact of the DC, the balance of the business outperformed our internal sales expectations by approximately $14 million.

Two other points to note on the bridges on page 7. First, decreases in product margin rate impacted margin by $8 million in the quarter. The decrease consisted primarily of two factors. Supply shortages from planned vendor receipts in season that required higher cost substitutes to serve consumer demand and an increase in industry promotions. Second, the strong sales performance of our lower margin PRO and Hot Tub businesses resulted in an unfavorable mix that drove an $8 million reduction in gross margin for the quarter. This mix headwind is not new, but in the past we've been able to counter it with margin growth in each of our businesses. The current macroeconomic and operating environment is challenging, and while we would certainly prefer a more favorable backdrop, our historical performance during challenging times gives us confidence in our future performance.

As you can see, summarized on page 14 in the deck, over the last two decades, Leslie's has been successful in profitably growing sales in periods of rising interest rates, inflation, housing industry slowdowns, GDP contraction, declines in consumer spending, and reduced rates of new pool builds. With the addition of Leslie's Connect, the focus on our six strategic growth initiatives and our investments in talent and capabilities, we believe we are better equipped today to grow profitably in challenging macroeconomic conditions than at any other time in our history.

Now let's review the performance of our six strategic growth initiatives in the quarter. The year-to-date contribution of each initiative is also summarized on page 9 of the supplemental deck. First, our consumer file. Total target file growth was minus 1.7% in the quarter. The comparison to last year is distorted by outsized file growth in Q3 2021, driven by the pervasive media coverage of the Korean shortage. Adjusted for that event, file growth was 5.5%, the unadjusted two year stack was 14% for the quarter.

Next, we continue to deepen our relationship with our consumers, our pool purchase loyalty file grew 1% for the quarter and now has 18.7% more members year-over-year. The program's key benefits of 5% reward earn rate and free shipping continue to resonate with our consumers. Average revenue per consumer grew 13.7% in the

quarter. The growth in average revenue per consumer exceeded the impact of inflation and reflects our growing wallet share. Third, our PRO initiatives are driving strong results.

During the quarter, we finished converting 29 residential stores to our PRO format and building five new PRO stores. We are now operating 79 total PRO stores. Our PRO affiliate program continues to scale. We now have over 2,600 agreements in place and our PRO affiliate partner sales grew 38% in the quarter. The newly converted PRO locations are expanding PRO affiliate program and our dedicated Leslie's PRO e-commerce site helped to grow PRO Pool 17% quarter.

Moving to M&A, in the quarter, we closed on the acquisition of Spring Dance, which operates four residential hot tub locations in the Greater Philadelphia area. Shortly after the end of the quarter, we also closed on the acquisition of Texsun, which operates six retail pool locations in the Greater Houston area. We continue to see a wealth of attractive acquisition opportunities in the industry and we have entered into two additional LOIs that we expect to close by the end of our fiscal year. With regard to our Whitespace Initiative, year-to-date, we have opened a total of 14 new store locations and we continue to successfully address underserved markets with targeted digital marketing. Our current store count including the recently acquired Texsun locations is 987.

Finally, AccuBlue Home. We are scheduled to receive just over 2,000 units of the Version 2.0 devices this year. These devices will be used primarily for incremental refinement of our app interface and additional consumer testing. We are not planning for any significant sales from this initiative in 2022.

Now, I'll turn it over to Steve to share more detail on our Q3 financial results and revised fiscal 2022 guidance.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thank you, Mike, and good morning, everyone. As Mike discussed, our third quarter performance was impacted by difficult year-over-year comparisons, as well as discrete execution challenges within our distribution network, which are now behind us. Despite these challenges, demand for our core non-discretionary product remained solid and we are focused on delivering against our updated outlook for the year.

Before I discuss our outlook, I will review our third quarter and year-to-date fiscal 2022 performance. For the third quarter, we reported record sales of $673.6 million, an increase of 12.9% or $77.1 million when compared to the third quarter of fiscal 2021. Our comparable sales increased 7.4% or $44.6 million. This increase is on top of our calendar adjusted comparable sales growth of 19.4% in the third quarter of fiscal 2021 and represents comparable sales growth on a two-year stack basis of 26.9%. Our non-comparable sales increased by $32.5 million, driven by four completed acquisitions and 21 new store openings in the last year.

We continue to see broad based strength across our three consumer groups in the quarter, as we generated comparable sales growth of 6% for Residential Pool, 17% for PRO Pool, and 10% for Residential Hot Tub. On a two-year stack basis, we generated comparable sales growth on a calendar adjusted basis of 21% for Residential Pool, 78% for PRO Pool and 33% for Residential Hot Tub. Weather for the full quarter was neutral to slightly positive, but the cadence of the start to the season impacted our performance in the Northeast. Gross profit increased 7.0% or $19.9 million when compared to the third quarter of fiscal 2021 and gross margin rate decreased by 250 basis points to 45.1% from 47.6% in the prior year.

During the quarter, there were three main headwinds to gross margin rate. Continued impact from business mix, lower product margins related to promotions and product costs and incremental distribution expenses. First, as we've noted in prior quarters, the impact of business mix is primarily driven by faster growth in our PRO Pool and

Residential Hot Tub businesses, which operate at lower gross margins. In the third quarter, business mix accounted for 115 basis points of the decline in gross margin. Second, a higher promotional cadence in our Residential Pool business and higher product costs associated with supply chain disruptions accounted for an additional 115 basis points of the decline in gross margin.

We believe the promotional cadence in the third quarter represents a more normalized level of promotions when compared to the prior year. Also, strategic efforts to procure product to offset supply shortages from existing vendors in season led to higher than expected product costs. And we expect this to continue through the end of the fiscal year. Third, during the current quarter, we incurred additional distribution expenses, mainly related to higher head count and compensation costs. The additional cost negatively impacted gross margins by 45 basis points. Total distribution costs increased by $5 million when compared to the prior year period, and we estimate the incremental expense due to the issues at our New Jersey distribution center totaled approximately $3 million during the quarter. We will continue to incur additional costs through the remainder of the fiscal year, but we are pleased that the New Jersey distribution center is now shipping to plan. And as we've noted in prior quarters, occupancy leverage during the quarter favorably impacted gross margin.

In the current quarter, occupancy leverage improved gross margin by 25 basis points. So, to summarize the two key changes in margin drivers during the current quarter when compared to our recent performance and our internal expectations were the change in product margins and higher distribution expenses.

Now I'll turn to SG&A. SG&A increased 12.1% or $14.2 million when compared to the third quarter of fiscal 2021 and decreased as a percentage of sales by 15 basis points. While we continue to invest in information technology and merchandising systems to support our growth, we were very disciplined with expense management, considering our execution challenges and the heightened inflationary environment during the quarter. We estimate inflation impacted SG&A by approximately $10 million, and primarily related to payroll and digital marketing spend. The current year quarter also has an additional $4 million of non-comparable SG&A associated with acquired businesses.

We generated record adjusted EBITDA of $182.9 million compared to $179.3 million in the third quarter of fiscal 2021. Adjusted net income increased to $125.7 million in the third quarter of fiscal 2022 compared to net income of $124.4 million in the prior year period, and adjusted diluted earnings per share was $0.68 in the third quarter of fiscal 2022 compared to $0.64 in the prior year period.

Now I'll turn to year-to-date results. Following are a few highlights. For the first nine months of fiscal 2022, we reported sales of $1.1 billion, an increase of 16.3% or $152.5 million when compared to the prior year period. Our comparable sales increased 10.7% or $100 million. This increase is on top of our calendar adjusted comparable sales growth of 23.4% in the first nine months of fiscal 2021 and represents comparable sales growth on a two year stack basis of 34.1%. Non-comparable sales increased $52.5 million.

Gross profit increased 12.1% or $49.5 million when compared to the prior year period. And gross margin rate decreased by 160 basis points to 42.0% from 43.6% in the prior year period. Adjusted EBITDA improved by $4.1 million to $192.7 million from $188.6 million in the prior year period. Adjusted net income was $112.0 million in the first nine months of fiscal 2022, compared to adjusted net income of $111.0 million in the prior year period. And adjusted diluted earnings per share was $0.60 in the first nine months of fiscal 2022 and $0.59 in the prior year period.

Moving to the balance sheet. We finished the third quarter of fiscal 2022 with cash and cash equivalents of $193 million compared to $307 million at the end of the third quarter of fiscal 2021. The reduction in cash and cash

equivalents was primarily due to share repurchases, investments in inventory and higher M&A activity. On inventory, we ended the third quarter of fiscal 2022 with $361 million, up $137 million, or 61% compared to $224 million at the end of the prior year quarter. The increase in inventory is primarily related to equipment and chemicals. Both product categories are non-discretionary in nature and are not subject to technology or fashion risk. We have seen some recent improvements in supply chain availability as we received a significant amount of backordered product during the third quarter. However, we would still characterize the current environment as mixed. As a result, we view our current inventory position as appropriate given the uncertainty of supply through the balance of the year and into fiscal 2023.

On debt, at the end of the third quarter of fiscal 2022, we had $800 million outstanding on our secured term loan facility compared to $808 million at the end of the prior year period. The applicable rate on our term loan during the quarter was LIBOR plus 250 basis points, our effective interest rate was 3.02%, and the facility matures in March of 2028. Funded debt less cash totaled $607 million at the end of the third quarter of fiscal 2022.

With regard to our outlook, today we are revising our full year fiscal 2022 outlook, the details of which are included in our earnings press release. As we only have one more quarter left in the fiscal year I will be discussing each metric in the context of our implied fourth quarter outlook. Fiscal fourth quarter sales growth will be in the range of 13% to 18% with comparable sales growth of 6% to 9%. Changes to our outlook since May include two items. First, we lowered fourth quarter performance expectations by $21 million to reflect performance more in line with third quarter trends. In the third quarter, we generated comparable sales growth of 27% on a two year stack basis and our outlook reflects a range of 22% to 25% for the fourth quarter. We don't currently see a catalyst to give us comfort to accelerate our comparable sales growth in the fourth quarter at a rate faster than the third quarter given the uncertain macroenvironment. And second, we increased sales by $10 million related to completed M&A transactions.

Our fourth quarter gross margin outlook includes a range of 42.8% to 44.2% compared to 46.0% in the prior-year period. At the midpoint, our gross margin expectations assume a decrease of 250 basis points, which is consistent with our results in the third quarter. Our outlook includes continued margin headwinds related to business mix, product margins and additional distribution center costs. Our outlook also factors in continued occupancy leverage in the fourth quarter. We expect fourth quarter adjusted EBITDA to be $94 million to $104 million and we expect fourth quarter adjusted diluted earnings per share to be $0.30 to $0.36.

Our outlook for the fourth quarter includes interest expense of $9 million. This is approximately $2 million higher than the third quarter and the increase reflects current rates on our floating rate debt. And finally, our diluted weighted average shares outstanding does not assume any incremental share repurchases. It is important to note that we are encouraged with our preliminary July performance, which is in line with our outlook.

On capital allocation, we have a balanced and disciplined approach, and our priorities remain as follows. Our first priority is capital structure. Our second priority is to invest in growth through both capital expenditures and M&A. In the first nine months of fiscal 2022, we deployed $41 million towards acquisitions and we invested $26 million in capital expenditures. Over the last year, we've accelerated the pace of M&A and our pipeline of M&A opportunities continues to grow. Our final priority is to return excess cash to shareholders. In the first nine months of fiscal 2022, we repurchased shares totaling $152 million and we have $148 million remaining under our existing share repurchase authorization. We will continue to evaluate opportunities to repurchase shares based on investment opportunities to drive growth, our financial position and market conditions.

And with that, I'll hand it back over to you, Mike. Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Steve. I want to wrap up by saying that we acknowledge our third quarter results reflect executional challenges that we should have been able to manage better. For our organization leadership team, that will never be acceptable. With that being said, we want to communicate three important points. The first is that we understand what happened with our New Jersey DC and we have taken the actions to fix it. We have also implemented plans to improve the entirety of our supply chain and its ability to support our future growth. The second is that our year-over-year results and market share gains are evidence that the fundamental drivers of the pool industry, the durable competitive advantages of the Leslie's operating model and the effectiveness of our strategic growth initiatives remain intact.

The third is that we have a long and successful history of profitable growth in the face of all kinds of macroeconomic headwinds and that we are better equipped today than we have ever been to continue that success and win in the market.

With that, I'll hand it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] So that we may address questions of as many participants as possible, we ask that you please limit yourself to one question and one follow up question. One moment please while we poll for questions.

Thank you. And our first question is from Peter Benedict with Baird. Please proceed with your question.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Hi, guys. Thanks for taking the questions. First, around the increased promotional activity, Steve, I think, you mentioned or Mike, that you think it's back to kind of normalized levels, but how do you – how does that make you think about the stickiness of pricing that has lifted sales in the industry here over the last couple of years? And then the related kind of follow up is curious about the trichlor inventory levels across the industry. We're seeing more promos in that area suggests that those levels are healthy, at least relative to demand. So just help us understand your thoughts around the future promotions or stickiness of price and then a little color on trichlor. Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Peter. Thanks for the question. Let me kind of walk through how Q3 worked, it's been pretty well documented. I think, it was a cold and wet start to the season, particularly in two key markets Northeast and the West Coast. This was going on at the same time that industry was pumping the chlorine shortage news from the prior year and a relatively strong Q3 for the industry. At the same time, macro pressures intensified for the consumer. And what we saw was some increased price sensitivity. So, you've got retailers coming off of a cold start to the season trying to [indiscernible] (27:25) the chlorine spike from the prior year, they see a more price sensitive customer. And yeah, we saw some more promoting in the industry in which we participated.

We have a price position in the marketplace and we want to hold that price positioning. I think, it's important too, to make the distinction between promotions and the way we look at this is promotions are a measure and our way to get our share of our industry traffic, it's actually not related to inventory. Promotions are not distressed inventory markdowns, and to your question on trichlor, you know, trichlor is in much, much better supply this year than it was the prior year. It's at elevated costs for us and for everyone else, but promotions do tend to focus on chemicals in the industry because they have broad use across the industry. And because they are, I would say, the most effective traffic driver for us and for the industry. That being said, I would characterize the level of increased promotion, which across the entirety of our revenue was 120 basis points is more normalized versus the last Q3, where there was a lot of shortages of product in chemicals particularly and very, very little discounting.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc. Q

That's helpful. I guess my follow up then Mike would be as you think about next year and the price – just the inflation levels for trichlor and that type of thing. You said in the past, you think that those levels are unlikely to come back down? Are you rethinking that here? How should we think about trichlor inflation and just inflation more broadly across the product portfolio for the next 12 months? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc. A

Yeah, I'll speak to trichlor specifically. We still think there's a lot of cost pressure on the trichlor across the manufacturing base, particularly in North America. So, we don't see, what has been established as the new retail prices coming down. But we would expect a more normalized promotional rate, which is what we believe we saw in Q3. I'll make the point to the Q3 is traditionally the most promotional quarter for the industry, really Memorial Day through the 4th of July. And as Steve mentioned in the month of July, we've got our preliminary results in. That promotional level has come down. Next year, I would expect Q3 to be somewhat similar. I don't think we're going to see any significant decrease in trichlor costing. And based on that, I think the industry pricing will hold.

Peter Sloan Benedict
Analyst, Robert W. Baird & Co., Inc. Q

Got it. Thanks so much.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc. A

Thank you.

Operator: Our next question comes from the line of Ryan Merkel with William Blair. Please proceed with your questions.

Ryan Merkel
Analyst, William Blair & Co. LLC Q

Hey, guys. Good morning.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc. A

Good morning.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Good morning.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Steve, you mentioned that higher product costs were going to impact the rest of the year. I think you also said uncertain supply was going to be a factor. Can you just walk us through those again? And maybe when you think you're going to be clear of those issues?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Sure. Happy to. Thanks, Ryan. Yeah. And again part of the commentary was very mixed environment. So, as we talked about some of the pressures in the Northeast, in our DC, we talked about elevated receipts. When you look year on year from an inventory perspective, most of the inventory growth is in trichlor as well as equipment, but not all equipment, some equipment. And when you think about the challenges we had kind of in-season making sure we stayed replenished across our network, it really related to kind of non-trichlor chemicals and in some cases those are DSD going straight to stores. Other cases working through our own distribution network as well. When you have shortages and a vendor does not provide product, we are going to serve our customers even if that product we procure comes from different sources and not going to be through our traditional contracts or at traditional pricing. So, we're going to pay a premium to get those products into our stores on an expedited basis from vendors who we do not necessarily consolidate all of our spend with. We really saw that happen kind of post Memorial Day. It, if you look at the quarter, when we talk about that 115 basis points of product margin pressure, I'd characterize it as most related to promotions, but some product cost feels like in Q4. That, as Mike just talked about, promotions feel like they've moderated, product costs will stay a little elevated as we stay in stock through the rest of the year. And so, when you think about longer term and you're kind of working into next year and again not providing guidance today, but I do think that promotional environment, if we're normalized at current levels, should moderate and the inventory product cost thing, we should work through over the next couple quarters. And as we prepare for next season, we will look at opportunities to ensure that we don't have similar issues as we did this year with outages.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. Okay. And then my second question is just on the 4Q guide. Just so I understand it, it sounds like you're extrapolating what you saw in 3Q. Sounds like it might be a little conservative, we have an uncertain macro. You saw July, that sounds pretty decent. You said promotions are not getting worse. So, is the right read here that underlying industry demand is not slowing down dramatically. The industry outlook is still pretty good, and you think that promotion [indiscernible] (33:12) that's behind you?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Ryan, I'll take that one. I do think you described it correctly. We were pleased to see promotion stabilize in July. And when you look at industry demand, if you – the issue we had with our DC cost us about 700 basis points of comp in our residential business. So, instead of running a 6% comp we would have run a 13% comp. So, in this demand, we think is very much alive and stable. The change we really saw in Q3 was, as I described before, given the slow start to the season and comping the chlorine shortage and media coverage from last year and a consumer that blinked a little, there was some price sensitivity and the industry reacted with some promotions. It's

not typically a promotional driven industry. We don't expect it to become one. And we think we saw that recovery in July.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Perfect. Thanks.

Operator: Our next question is from the line of Kate McShane with Goldman Sachs. Please proceed with your questions.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thanks for taking our question. I wanted to ask quickly about some of the incremental costs that you discussed, particularly around the distribution center issues. I know some are persisting into fourth quarter. Is that mostly head count related? And given that those situations seem to be somewhat of a backup with regards to the supply chain, is that head count being considered more temporary or is this now in the base?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Good question, Kate, and good morning. I think, the right way to think about it is for the quarter and for Q3 as well as for Q4, it is primarily payroll head count related as we have more individuals to get the capacity that we needed to serve both stores as well as digital demand. As we get into next year, Mike talked about setting up a different approach, particularly in a market like the Northeast, where needs seven days a week, double shifts, third parties to kind of assist with the volume. So, I would characterize the spend as being reallocated most likely as we go forward. But again, if that's been – stays at current levels with the incremental demand that we did not serve this year, it isn't necessarily going to be a headwind from a margin rate perspective. So, I think, from a dollar perspective, again, too early to say exact, but it will be higher than previously expected going into the quarter, but it will be good spend to serve incremental demand.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. And then my second question is, can you talk to ticket versus traffic during the quarter in terms of how it drove the comp?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Kate, I'll answer that one. Good morning. The – if you look just at our comp residential business, our transactions were down just over 1%, about 1.3%, average order value ticket was up about 9%. Put those together and you get to our 7% comp. And I'll note again, the DC cost is about 700 basis points of comp there. So that was a big impact. Across the total business, the transaction count was plus 3% in the quarter and the average order value was 10%. Those two combined get us to our 13% sales growth.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Our next question comes from the line of Liz Suzuki with Bank of America. Please proceed with your question.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Great. Thank you. I'm just curious how much market share you think you could have gained if you hadn't had the issues with the Northeast DC and then what percentage of your stores does that DC serve?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. That, you know, the Northeast is an outsized portion of our business in Q3 because it's a very concentrated season in the best of years. And this year it was more so with the slow start. And I think, the way to characterize it is, $35 million, about 700 basis points of comp on our residential business would have increased the share we had as we show on page 15 by that amount.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Great. Thank you. And I'm just curious, Leslie's has obviously been around for a while. Company was founded in the 1960, so this wasn't the first time you've had a cold spring. Why do you think the Northeastern DC was caught off guard by this increase in demand as the weather warmed up?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. That's a – well, that's a great question. And it's a question that we've asked ourselves a lot internally. We – the season got a late start. We were well-positioned with inventory in the stores to start the season. The start to Memorial Day weekend was, I'm going to say, okay, a little more promotional than normal, but okay, the first week of shipping, replenishment shipping following Memorial Day weekend, the DC had some issues, that's not unusual for a DC and ours – we have, DC have bad weeks. They tend to get caught up, and in this case we saw the reverse and the performance deteriorated all the way through June. And, it's a combination of a very tough staffing environment. And when you add people in shifts quickly to the situation to rectify it, which we did, you run into a lot of problems and challenges in getting the right supervisory talent to manage those additional shifts. So, it was just a – it was a highly inefficient process. But to be clear, we should have managed it better and we should have seen it coming. It's a – it's very disappointing internally for us not to have managed that better.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Jonathan Matuszewski with Jefferies. Please proceed with your questions.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Great. Hey, Mike and Steve, thanks for taking my questions. First one on gross margin, with the shortfall this quarter, can you just help us think about the low end and the high end of the implied gross margin forecast in guidance? I guess, what's embedded in each of those beyond the impact of higher or lower sales? So, what does

your low end and high end imply in terms of maybe promotionality in the industry from here? Sounds like maybe it stabilized in July, but are you planning for any incremental promotions in 4Q? Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, good morning, Jonathan. I'll take the part on promos and see if you can talk about the building blocks of the margin. We think promotions have settled down. We've got Labor Day weekend coming up. We expect it to be fairly normalized to next year. Second part of the product margin challenge, Steve mentioned this earlier, is some unexpected short shipments from vendors on particularly specialty chemicals. That's a very active situation. We're managing it day to day. And I'll note that it's completely different than last year. Last year, the shortages and supply challenges were focused on trichlor and equipment. Trichlor inventory is in good shape, equipment inventory for the most part is in good shape, but things like shock, liquid chlorine, dry acid, algaecides, you know, we've got short shipped 30% to 40% from some of our proven vendors on those products. And to meet consumer demand, we've gone to the open market to purchase and that has been – that's come in at a much higher cost. So that pressure we see continuing into Q4 as part of the product margin promotions we think will stabilize and become less of a factor.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

And Jonathan, with respect to the margin rate change in Q4, kind of midpoint implied 250 basis point decline, which is consistent with Q3. Again, I had made a comment that, you know, a little bit different mix as we think about how it will play out in Q4. More perspective, a little more business mix impact in Q4 given some of the M&A and the strength of the hot tub business in Q4 relative to Q3. And then when you think about what Mike just kind of walked through promotionally feel like it's a little less impactful but still higher than last year. And then product margin related to product costs is really dependent on our ability to get incremental product from existing vendors. So partially why we have the range we have is the uncertainty of when or if we get replenished from some of those existing vendors or if we have to rely on our newfound partners or exist – or new relationships to drive more product into the network.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

And then my follow up question, just in terms of the customer mix, it looks like [indiscernible] (43:15). Curious whether you're seeing any indications of home owners looking to engage more in DIY maintenance of their pools as maybe they tightened their expenditure? Are you hearing that from store associates, PRO partners, anything like that presumably work to your advantage?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Jonathan. I would say that in past macroeconomic slowdowns, there has been an uptick in DIY pool maintenance from residential consumers. I believe we would have seen that this quarter without the challenges associated with the New Jersey DC. On the PRO side, we haven't really seen any slowdown in that business. We're a much smaller player in that business to the total. So, we've got lots of room to grow. And that business was all very positive. I think, the only challenge we had there was similar to what Steve was mentioning. We did have some periodic shortages of supply trying to service the PRO business. But outside of that, we're very pleased with how the Affiliate program is working and the PRO initiative overall.

Operator: Thank you. Our next question comes from the line of Andrew Carter with Stifel. Please proceed with your question.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Sorry, I was on mute. Just want to make sure and because I'm a little confused here. So early June, the commentary was adverse weather, which you alluded to in the late start. You then suggested that would have been a neutral to positive impact. So, to be clear, if I understand this correctly, the DC issue didn't allow you to fully capitalize on the favorability. And kind of to that end, would you have known that there were kind of issues with this DC if there wasn't a kind of a change in the end market demand that was that abrupt? And finally, I'll just ask kind of all in one. I appreciate you are viewing the remainder of the network, but how can you kind of assess this risk at other locations? And could there be any stepped up investment, SG&A, CapEx, whatever, next year to fix any other deficiencies? Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Andrew. Thanks for the question. The – when we were out there first week of June speaking to investors, like I said earlier, we've come to the Memorial Day weekend, it was slow, but not terrible. It was more promotional. But we had a lot of momentum in the business. The Northeast region in particular was outperforming at that time, the rest of our store fleet. And the situation with the DC started when they had trouble fulfilling the replenishment shipments into the stores they served that first week of June. And like we've said before, and we've seen not unusual for one of our DCs to have a poor week of shipping. So, we were concerned, but not overly concerned.

The challenge was there wasn't a recovery from that, and the situation got worse and worse for several weeks. So caught us by surprise, should not have caught us by surprise, should have been able to manage through it better. And you know as you can see in the result, it was a big hit to the quarter. In regards to the DCs, you know we've grown in the last three years 60 plus percent. We've invested in our DCs. We'll need to continue to invest in our DCs and the situation with New Jersey has put us on high alert from a learnings perspective in evaluating the balance of our of our network that's for sure.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

And Andrew, this is Steve.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. I'll...

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

I think, the other thing to think about in the Northeast, it does have the most acute change, even with a normalized cadence as you go from kind of Q2 to Q3, really kind of peaking into end of May, early June from a volume perspective. So, you don't have the same acute volume changes at other facilities. But as Mike said, we've certainly seen those facilities operate well and they may have a day or two or a week where there's challenges, but kind of picked themselves back up and continue operating as normal. So, it – as Mike said, we've talked a lot about investments in distribution and supply chain. It's part of what we've been talking about all year from an investments perspective as well. And given the pace of growth, and the fact that we continue to have kind of six

full line distribution centers across our network, even with the elevated sales volume, it is an opportunity for us to revisit efficiencies and opportunities to supplement in season.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks, I'll pass it on.

Operator: Our next question is from the line of Peter Keith with Piper Sandler. Please proceed with your questions.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hi, thanks, good morning, everyone. Just want to get clarity on the sales outlook for the fourth quarter. I believe you said you've reduced your prior outlook by $21 million, but at the same time, it sounds like the DC issue is now resolved. You also did comment on macroeconomic challenges, which obviously we're aware of, but at the same time, you've talked in the past about 80% of the business being non-discretionary. So just help me understand a little bit better about that reduced sales outlook. Is there something we should be concerned about going forward?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Well, I think,...

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

A good question. Go ahead, Mike.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Go ahead.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

All right. Good morning, Keith. Yeah, from an outlook perspective. So, we're looking at a DC growth of 13% to 18%, comp of kind of 6% to 9%. If you think about Q3 where we were at as 7%, basically midpoint of that outlook is consistent with Q3. As you pointed out, DC is behind us in the Northeast in kind of shipping the plan, which is good. But again, given the macroeconomic uncertainty, it doesn't feel like, now is the right time to basically accelerate the pace of expectations in Q4. We're pleased with July, as we talked about, but I think at this point feel comfortable with our current outlook, which overall for the year is 15% to 17% top line growth and comp of call it 9% to a 11%.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. And if I just look at the Q4 gross margins, I think you also said at the midpoint you're down 250 basis points, so down similar amount as Q3, but at the same time, that promos are abating. Are you just trying to give yourself some cover here on the promos and then this mix issue with the elevated product cost because it seems like the gross margins sequentially should have less pressure?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah it's a different pressure. So, I talked about likely more business mix headwind in Q4. Promotions less headwind and product costs more headwind is probably the right way to think about it. But, it feels like it's consistent with last quarter is the right place to be at the midpoint.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Thank you.

Operator: Our next question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Good morning, guys. This is Michael Kessler on for Simeon. Thanks for having our questions. First, I was hoping you could maybe help distinguish a bit more I guess between the challenges that you had at the New Jersey DC, which had weather issues, the supply chain moderating at the same time coming in relative, I guess, to other regions, were there are also shipment issues from vendors like across the country more widespread. And then relatedly can you speak to just the Northeast region, sales performance relative to the rest of the country route and also versus your plan? Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, sure. The combination of a late start to the season, combined with a really significant peak in receiving from vendors impacted all of the DCs and it wasn't expected, but we were able to manage through it in all, but the New Jersey DC. So, that was a similar pressures I would say across our network, amplified in New Jersey, with as Steve has explained, you know a very strong peak in that region in terms of replenishment. Season happens very quickly there and with the slow start it concentrated demand and at the same time we had seems like most of the vendors caught up at the same time in the supply chain and we took on those receipts, but it made for a very crowded and a problematic challenge, particularly in the New Jersey DC. The Northeast region, we don't really break out comps and performance and size by region, but it was the only region in our network of seven regions that had a negative comp and that was very specifically the impact of the DC that serves that region.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. That's helpful. And a follow up just on margins, and starting to turn the page a little bit to next year thinking about normalized margins for the business. So, there's some moving pieces now with maybe potentially some higher costs in DCs. You have the mix shift as the [indiscernible] (53:33) grow. Maybe promotions have to be annualized at lower rates. So, can you talk about, I guess where you see that all normalizing and any I guess on the other side offsets on the P&L from a tailwind standpoint, as just as we're trying to kind of calibrate where margins are going off of this year than relative to where you were at pre-COVID?

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Good question. I'll take this, Mike. We're not providing guidance for 2023 today, and we're not changing our long term growth algorithm either. So, when you think about step back, longer term, the aftermarket pool industry fundamentals remain intact. And when you think about our algorithm and how we've talked about it, we have business mix headwinds. It's been there since we went public. It'll continue to be as we develop relationships with new consumers and new channels. We generally drive product margins higher in each of our businesses. We do that through our direct vendor relationships, which is unique in the industry relative to most of the competition. Our proprietary brand strategies, we've talked about our ability to continue to expand in that area. And then again, our vertical integration around distribution and manufacturing so those should provide efficiencies and leverage across the business kind of over the long term. And then again, expect continued occupancy leverage. So, those are kind of the core drivers that continue to – we think are going to continue to drive gross margin in the future. I think, we do have some noise over the next few quarters and look forward to providing guidance as we're going to get through Q4.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. The only thing I would add is with a stabilized supply situation and it's getting better though, as Steve described it, it's still mixed and a stabilized promotion situation which will be reset more normalized. And I think, we've seen that happen in the fourth quarter. We can manage margins. We can manage margins to our long term growth algorithm. We got surprised by some factors in this quarter and that really led to the product margin degradation that you saw.

Operator: Thank you. Our next question is from the line of Garik Shmois with Loop Capital. Please proceed with your questions.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Oh, hi. Thanks for taking my question. I'm just wondering how you're viewing some of your growth initiatives, the pace of the PRO conversion, acquisitions, new store openings, just given the more uncertain macro.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Hey, Garik, I would say, we feel very good about the PRO initiative. Like I said, comp 17% for the quarter would have been higher without some periodic shortages of product, particularly larger sizes of shock, so feeling very confident there. On the M&A side, continue to see lots of opportunities. We're going to look to accelerate that. The residential stores that we are opening, new stores are performing well, as is our marketing – digital marketing efforts to underserved areas. We had talked about the file growth starting to moderate. You saw that this quarter. I'll also point out that just – this year was a very unusual year between the Texas freeze, which impacted the entire industry and the chlorine – media coverage of the chlorine shortage last year, two really extraordinary events that put a lot of noise in the year with regard to consumer acquisition. But if you look at our two year stacks in the quarter, plus 14, we feel good about that, and plus 16 for the year. So bumpy ride on the consumer file growth, but believe with those events behind it back to a steady growth in the file at a lower level. We've said 100 basis points to 300 basis points. I think that's where you'll see us next year.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Got it. Just want to follow-up one more time on the New Jersey DC. I think, you mentioned you're shifting to a seven day a week, two shift a day model and just kind of curious, how does that compare to before and how universal is that model across our network?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Well, that's said, that's the model we're going to put in place across the network. We had an acute problem with the New Jersey DC, but we were running all of our DCs right at max capacity for the season, seven day a week with a large e-commerce business like we have. I'm going to say is the norm, we're currently operating about 5.5 to 6 days a week. We had run second shifts in most of the DCs over the course of the season. However, it was not, not a seven day a week. And the challenge here is really you can add temporary DC staff and you can train them up for a season. What we learned this season is the challenge is really around supervision and we're going to make investment in second shift and weekend shift supervision that we'll just put in place in the DCs year around and then they will really have their specific task during season.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Got it. Thanks for that.

Operator: Thank you. Our final question today comes from the line of Dana Telsey with Telsey Advisory. Please proceed with your questions.

The next question is from the line of Dana Telsey. Your line is live for questions.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

hi. Hi, everyone. As you think about inventory levels, given what happened in the New Jersey DC, where should we be seeing inventory levels perhaps at the end of the fourth quarter? And then the changes in product procurement that you mentioned, Mike, how much of that continues going forward and how much of the New Jersey DC costs continue are sticky and that's the way the business continues to operate? How much is permanent versus how much is variable? Thank you.

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. Good morning, Dana. I'll take the first part of that on inventory, as we think about year end, I'm not going to guide to specific numbers, but we expect inventory to remain elevated. Again, the two primary areas of increase year on year for Q3 were trichlor and equipment. On trichlor, the increase is relative to last year, which was more depressed, more difficult to come by. And so, we're in a much better position from a trichlor perspective across our network, both – all stages, raw materials, produced goods, in our DCs and in our stores. When you think of equipment, the equipment is where we've had a lot of the uncertainty around timing of supply receipts. And it does feel like that area of the supply chain is moderating.

It is getting better. It has resulted in elevated levels. And when you think about the nature of our inventory, it doesn't have the same level of obsolescence as many other retailers. This is good product. And if the choice is to take inventory at a little bit higher level today going into the end of the year and to start off next year in a better position, versus try to run leaner. We will take the former in the current environment. So, it's something we expect

to actively manage in the year-end and through next year. Don't necessarily view these levels as permanent increases, but in the current environment, it's the appropriate level of inventory.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Good morning, Dana. I apologize. I had some trouble hearing the second part of the question. I believe it was around how much of the DC – of the elevated expense in the DC would be permanent. And the way I would answer that is the DCs will be more expensive to operate on a go-forward basis, but it will also give us the increased capacity we need and we should be able to gain leverage on the DC expense as it goes up just through our standard growth profile.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Thank you. That concludes our question-and-answer session. I'll turn the floor back to management for closing remarks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Thank you, operator, and thank all of you for joining us today. We appreciate the continued interest in Leslie's.

Operator: This will conclude today's conference. You may disconnect your lines at this time. We thank you for your participation and have a wonderful day.

Exhibit 4

30-Nov-2022

Leslie's, Inc. (LESL)

Investor Day

CORPORATE PARTICIPANTS

Farah Soi
Partner, ICR LLC

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

Moyo LaBode
Chief Merchandising Officer, Leslie's, Inc.

Michael Africa
Chief Digital Officer, Leslie's, Inc.

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Ryan Merkel
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Steven Forbes
Analyst, Guggenheim Securities LLC

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

David Leonard Bellinger
Analyst, MKM Partners LLC

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Jonathan Andrew Baldwin
Analyst, WR Securities LLC

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Keith Hughes
Analyst, Truist Securities, Inc.

Zachary P. Beeck
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Farah Soi

Partner, ICR LLC

Good morning, everyone. For those of you I haven't met, I'm Farah Soi with ICR, and on behalf of the Leslie's team, I would like to welcome everyone joining us today here in Arizona and over the webcast for Leslie's Investor Meeting. We're thrilled to finally meet many of you in person and the entire leadership team is excited to discuss Leslie's business and growth strategy with you.

Earlier this morning, we released our fourth quarter and full year fiscal 2022 results as well as our guidance for fiscal 2023. Mike Egeck, our CEO; and Steve Weddell, our CFO, will begin today's discussion with a review of those results and the underlying drivers to the FY 2023 outlook. Following that discussion, the team will provide more detail on Leslie's, the industry in which it operates as well as its integrated ecosystem.

We'll then have a short break and reconvene at 10:00 AM local time to review our growth strategies before opening it up to Q&A. Following Q&A, for those of us who are with us, we will break for lunch and then we will convene at the entrance to the conference center to meet the buses that will be departing at noon sharp to bring us to Leslie's office and store tour. The same buses will then leave for the airport at 2:00 PM with a drive time of about a half hour.

Before I turn the presentation over to Mike and the team, please review our Safe Harbor statement on page 2 of the presentation and in our Form 10-K. Throughout this presentation, we may make certain forward-looking statements that pertain to our future. These statements reflect our current forecasts based on our knowledge of our business today, and we're under no obligation to update these statements. In addition, actual results may differ materially from these expectations due to risks and uncertainties as outlined in our public filings.

And with that, Mike?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thank you, Farah. Good morning, everyone. Thank you all for joining us, particularly those of you who have made the trip to join us live in Scottsdale for what is our first-ever Investor Day. I'd like to note that we posted today's earnings and investor deck to Leslie's IR site and that a replay of today's webcast will be available on the site within 24 hours.

I'm going to start this morning by highlighting our key Q4 results and accomplishments and then move to the same for our full year performance. Steve will then walk you through our fourth quarter and full year financial results in detail and introduce our fiscal 2023 outlook. After that, we'll move to the investor presentation portion of today's agenda, followed by Q&A.

I'm pleased to report that our Q4 performance resulted in another record quarter and continued the strong results we have delivered throughout the year. Sales for the quarter increased 16% to a record $476 million, with broad-based strength across our consumer groups. Residential Pool grew 10% for the quarter, PRO Pool grew 18% and Residential Hot Tub grew 80%. Comp sales increased 10% for the quarter and the two-year stack comp was

27%. Gross profit for the quarter was a record $217 million and adjusted EBITDA for the quarter was a record $100 million.

Two points I'd like to make regarding the Q4 performance. First, due to the outstanding efforts of our supply chain team, our New Jersey distribution center performed very well during the quarter, became more efficient as the quarter progressed and is operating to the standards of our other facilities. Second, as we had anticipated, promotions for the quarter normalized to roughly the same levels we saw in Q4 2019, and the supply and cost of certain specialty chemicals remained a challenge.

However, our merchant teams were able to offset the impact of both these factors by implementing select retail price increases across key items in our product assortment and aggressively counter sourcing product with new vendors. With these actions, product gross margin increased 16 basis points and the total gross margin decrease was limited to 30 basis points.

Moving to our results for the full year. Fiscal 2022 represented our 59th consecutive year of growth and produced all-time record sales, gross profit and adjusted EBITDA. Sales for the year grew 16% to a record $1.6 billion. Comp sales were plus 11% and the two year stack was 32%. Product cost inflation for the year was approximately 9%. Gross profit for the year grew to a record $674 million. Gross margin for the year decreased 120 basis points. The decrease in gross margin was driven primarily by business mix due to the outperformance of our lower margin PRO and Hot Tub consumer groups and to a lesser extent by the challenges we experienced in Q3 with regard to specialty chemical costing, our New Jersey DC and the industry promotional cadence.

Our Q4 and full year performance reflects the tremendous efforts and contributions of our associates and vendor partners to meet continued strong consumer demand in the face of the discrete operating challenges arising from what remains an unpredictable and constrained supply chain across many of our product categories. It's also a testament to the organization's ability to continue to execute our growth initiatives at a high level in an increasingly unpredictable macro environment.

Throughout 2022, Leslie's and the pool industry benefited from the continuation of strong consumer demand. This demand was driven by the macro trends that accelerated with the onset of the pandemic and were elevated by work-from-home and hybrid work schedules. Those macro trends, which we will discuss in more detail later in the presentation, in combination with three years of strong pool builds, equipment cost inflation driven by innovation and sanitizer cost inflation have created a pool industry that is significantly larger than it was pre-pandemic.

Industry research estimates that over the last three years, 340,000 new pools have been built and that the industry as a whole has grown approximately 30%. Over that same time period, the competitive advantages derived from our integrated system of physical and digital assets, working together with our strategic growth initiatives has resulted in sales growth of 68%, a three-year stack comp of 50% and meaningful share gains.

Slide 8 of the deck bridges our fiscal year 2022 sales in two ways. First by consumer group. Our Residential Pool grew 10% for the year and contributed 8% of total company growth. Our PRO Pool group grew 20% and contributed 3% of total growth. And our Residential Hot Tub group grew 80%, and contributed 6% of our total growth of 16%.

Second by strategic growth initiative. Our consumer file grew 3% on an adjusted basis for the year and contributed 1% of total growth. On an unadjusted basis, our consumer file has grown 10% over the last two years and 25% over the last three years. As we've leaned into our digital marketing strategies, drove consistently high ROIs and capitalized a new customer acquisition driven by our advantaged trichlor in-stock positions.

With regards to deeper relationships with our customers, average revenue per customer grew 22% for the year. Our loyalty file ended the year with 17% more members than the prior year, and loyalty members accounted for 74% of Leslie's transactions. Consumers continue to be drawn to the key benefits of pool perks, a 5% earn rate and free shipping.

Our PRO initiative continues to deliver strong results. We ended the year with 80 PRO locations and 2,750 PRO partner contracts. I've previously referred to our PRO Partners as PRO Affiliates. This change in naming convention is purposeful and reflects the input of our PRO Customers. They prefer the term partner. For the year, sales to PRO partners increased 45%. And our total PRO business grew 20% for the year and now accounts for 15% of our total sales, but remains a small percentage of the approximately $4.4 billion PRO market.

Moving to M&A. For the year, we completed six acquisitions that added 27 locations. Earlier this month, we closed on our first acquisition of fiscal 2023, Splash Pools, which adds five locations across Florida and Louisiana. We continue to see a wealth of acquisition opportunities in the pool and spa industry and continue to be able to acquire good businesses at attractive multiples.

With regard to our whitespace initiative, for the year, we built 14 new locations and grew our digital sales in underserved markets by 39%. With the 14 new builds and the acquisition of 27 locations, we ended our fiscal 2022 with 38 net new locations and a total of 990 locations.

Finally, with regard to AccuBlue Home, I'm very pleased to be able to say that at the end of our presentation, we're going to show you the production version 2.0 device and announce our commercial launch of the program for pool season 2023.

Now, I'll turn it over to Steve to discuss our fiscal year 2022 results in more detail and introduce our 2023 outlook.

Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

Thank you, Mike. And good morning, everyone. As you can see from our earnings release, we reported record results for both the fourth quarter and full year fiscal 2022. In the fourth quarter, we performed in line with our outlook and our team recovered nicely from the execution challenges we experienced in the third quarter. Today, I'll review our fourth quarter of fiscal 2022 performance, our performance for the full year fiscal 2022, our outlook for fiscal 2023 and our capital allocation priorities. And I'll start on slide 9.

For the fourth quarter, we reported record sales of $476 million, an increase of 16.3% or $67 million when compared to the fourth quarter of fiscal 2021. Our comparable sales increased 10.2% or $42 million. This increase is on top of our calendar adjusted comparable sales growth of 16.3% in the fourth quarter of fiscal 2021 and represents comparable sales growth on a two-year stack basis of 26.5%. Our noncomparable sales increased by $25 million, driven by 6 completed acquisitions and 14 new store openings in the last year.

We continue to see broad-based strength across our three consumer groups in the quarter as we generated comparable sales growth of 9% for Residential Pool, 17% for PRO Pool and 13% for Residential Hot Tub. On a two-year stack basis, we generated comparable sales growth on a calendar adjusted basis of 21% for Residential Pool, 62% for PRO Pool and 32% for Residential Hot Tub. Weather for the full quarter was slightly positive.

Gross profit increased 15.5% or $29 million when compared to the fourth quarter of fiscal 2021 and gross margin rate decreased by 30 basis points to 45.7% from 46.0% in the prior year. During the quarter, business mix

negatively impacted gross margins by 110 basis points and incremental distribution expense by 25 basis points, partially offset by higher product margins of 15 basis points and occupancy and other leverage of 90 basis points. Improved product margins resulted from pricing actions taken during the fourth quarter.

Now I'll turn to SG&A. SG&A increased 10.9% or $13 million when compared to the fourth quarter of fiscal 2021 and decreased as a percentage of sales by 140 basis points. While we continue to invest to support our growth, we were disciplined with expense management considering the heightened inflationary environment during the quarter. We estimate inflation during the quarter impacted SG&A by approximately $8 million, primarily related to payroll and digital marketing spend. The current quarter also has an additional $5 million of noncomparable SG&A associated with acquired businesses.

We generated record adjusted EBITDA of $100 million, an increase of 21.3% or $18 million when compared to the fourth quarter of fiscal 2021. Adjusted net income increased to $64 million in the fourth quarter of fiscal 2022, an increase of 27.5% or $14 million when compared to the fourth quarter of fiscal 2021. And adjusted earnings per share were $0.35 in the fourth quarter of fiscal 2022, an increase of 34.6% compared to $0.26 in the prior year.

Now let's turn to the full year fiscal 2022 results on slide 10. Following are a few highlights. For fiscal 2022, we reported sales of $1.6 billion, an increase of 16.3% or $219 million when compared to the prior year. Our comparable sales increased 10.6% or $143 million. This increase is on top of our calendar adjusted comparable sales growth of 21.2% in fiscal 2021 and represents comparable sales growth on a two-year stack basis of 31.8%. Noncomparable sales increased by $76 million.

Gross profit increased 13.2% or $79 million when compared to the prior year and gross margin rate decreased by 120 basis points to 43.1% from 44.3% in the prior year. During fiscal 2022, gross margins were negatively impacted by business mix and lower product margins related to promotions and higher product costs. This decrease in gross margin was partially offset by distribution, as well as occupancy and other leverage for the full year.

Adjusted EBITDA improved by $21 million to $292 million from $271 million in the prior year. For fiscal 2022, our effective tax rate was 23.6%, reflecting a statutory rate of 25% and discrete benefits related to equity-based compensation awards and research and development credits. Adjusted net income was $176 million in fiscal 2022 compared to adjusted net income of $161 million in the prior year. And adjusted diluted earnings per share was $0.95 in fiscal 2022 and $0.85 in the prior year.

Moving to the balance sheet, we finished fiscal 2022 with cash and cash equivalents of $112 million compared to $344 million at the end of fiscal 2021. The reduction in cash and cash equivalents was primarily due to share repurchases, investments in inventory and higher M&A activity during the year.

On inventory, we ended fiscal 2022 with $362 million, flat when compared to the third quarter and up $163 million or 82% compared to $199 million at the end of fiscal 2021. The increase in inventory is primarily related to equipment, chemicals and M&A activity. Both the equipment and chemical product categories are nondiscretionary in nature and are not subject to technology or fashion risk.

We view our current elevated inventory position as appropriate given the uncertainty of supply going into fiscal 2023. Our number one priority will be to put the company in a position to meet consumer demand. We also need to see industry supply chains become more predictable. And when we feel we can adequately meet consumer demand and we see an improvement in supply chains, then we will pursue opportunities to reduce inventory.

On debt, at the end of fiscal 2022, we had $798 million outstanding on our secured term loan facility compared to $806 million at the end of the prior year. The applicable rate on our term loan during the fourth quarter was LIBOR plus 250 basis points. Our effective interest rate was 4.3%, and the facility matures in March of 2028. Funded debt less cash totaled $686 million at the end of fiscal 2022.

Now let me turn to our outlook for fiscal 2023 on slide 12. In fiscal 2023, we're expecting a more uncertain macroeconomic environment up to and including a recession that will pressure industry sales, margins and earnings growth. Approximately 80% of our sales are nondiscretionary products and services, which will mitigate, but not eliminate the impact on our business. In light of the macroeconomic outlook for fiscal 2023, we're providing the following annual outlook. We expect sales of $1.560 billion to $1.640 billion, representing flat to an increase of 5% compared to fiscal 2022.

And let's turn to slide 13 to walk through our sales build. At the low end of our outlook, we modeled comparable sales growth of approximately negative 5%, which is comprised of the following: a 5% decline in nondiscretionary non-trichlor sales, a 15% decline in trichlor pricing, a 20% decline in discretionary sales and 5% inflation on all fiscal 2022 sales. The low end also includes noncomparable sales growth of approximately $75 million.

At the high end of our outlook, we modeled flat comparable sales growth, which is comprised of the following: flat nondiscretionary non-trichlor sales, a 10% decline in trichlor pricing, a 15% decline in discretionary sales and 5% inflation on all fiscal 2022 sales. The high end also includes noncomparable sales growth of $75 million.

And to be clear on trichlor pricing, our intent is to maintain pricing at current levels as we expect increased trichlor costs across the industry in fiscal 2023. We have not seen recent price decreases. However, we're in a position to remain competitive and we have the ability to match prices to maintain or grow our market share.

So, let's turn back to slide 12 and cover the rest of our outlook. We expect gross profit of $667 million to $708 million, which implies a decrease of 35 basis points to flat gross margins when compared to fiscal 2022. While we continue to see opportunities to improve margins in each of our businesses as a result of our structural advantages, we expect continued headwinds on margins from business mix and investments in supply chain in fiscal 2023.

We expect adjusted EBITDA of $280 million to $310 million, representing a decrease of 4% to an increase of 6% compared to fiscal 2022. We will continue to aggressively manage operating costs in the current environment while continuing to invest in high return opportunities to drive growth in each of our businesses. We've provided additional drivers on gross margin and adjusted EBITDA on slide 16 for your reference.

We expect net income of $131 million to $146 million and adjusted net income of $145 million to $160 million. We expect diluted adjusted earnings per share of $0.78 to $0.86, representing a decrease of 9% to 18% compared to fiscal 2022.

Our outlook assumes an average LIBOR rate on our floating rate debt of 4.8% during fiscal 2023 and our outlook assumes interest expense will be approximately $30 million higher than fiscal 2022. Our outlook also includes a higher effective tax rate of 25%. And combined, interest and taxes negatively impact year-over-year net income by approximately $25 million and EPS by $0.13 per share. We estimate diluted share count of 185 million shares to 187 million shares and our outlook does not factor in any potential share repurchases during fiscal 2023.

And finally, on our outlook, I want to remind everyone of the natural seasonality within our business. Our primary selling season occurs during our fiscal third and fourth quarters, which span April through September. We invest in our business throughout the year, including operating expenses, working capital and capital expenditures related to our growth initiatives. While these investments drive performance during our primary selling season, they reduce our earnings and cash flow during the first half of our fiscal year.

In fiscal 2023, we expect negative comparable sales growth and significant gross margin declines in the first half of the year given the strength of the comparable periods in fiscal 2022 and fixed cost deleverage from negative comparable sales. We also expect to generate all of our adjusted EBITDA and earnings in the second half of the year.

More specifically on the first quarter, we expect the following to impact results: In the current quarter, we're experiencing significantly less favorable weather when compared to last year. In Q1 2022, we had a more advantaged trichlor position when compared to others in the industry. And in Q1 2022, we realized higher average retail price increases ahead of larger industry cost increases.

But as we step back and look ahead, our growth strategies continue to drive an attractive long-term growth algorithm over time. Our algorithm is supported by industry growth, our differentiated market position and our unique capabilities. First, sales growth in the mid-single-digit to high-single-digit range, based on industry growth and our strategies to expand market share.

Low-double-digit EBITDA growth, based on stable to positive 25 basis point gross margin increase and SG&A leverage. Earnings growth in the mid- to high-teens range driven by flat depreciation and amortization, modest reductions in interest expense and a consistent tax rate. And it's important to note that this range does not include potential redeployment of excess cash back into the business, more aggressive debt paydown or returning cash to shareholders.

On capital allocation, we continue to have a balanced and disciplined approach, and our priorities remain as follows: Our first priority is capital structure. We finished the year in a solid position. We had net debt divided by adjusted EBITDA of 2.3 turns, we had $112 million of cash on hand and a $200 million revolving credit facility. And our first debt maturity is our revolver in 2025.

Our second priority is to invest in growth through both capital expenditures and M&A. In fiscal 2022, we deployed $108 million towards acquisitions and we invested $32 million in capital expenditures. Over the last year, we've accelerated the pace of M&A and our pipeline of M&A opportunities continues to grow. Our final priority is to return excess cash to shareholders. And in fiscal 2022, we repurchased shares totaling $152 million.

For fiscal 2023, our outlook includes M&A investments of $15 million, capital expenditures of $50 million and no share repurchases. In fiscal 2023, our capital expenditures include $15 million associated with the expansion of tableting capacity at Stellar Manufacturing that we expect to be available for the 2024 pool season.

Before I turn it back to Mike, I want to address one item that will be covered in greater detail in our Form 10-K that we expect to file later today. In short, we've identified a material weakness in the internal control related to IT general controls. These controls relate to user access over certain IT systems that support our financial reporting processes. We have not identified any misstatements in the financial statements as a result of these deficiencies.

We have taken a number of actions to begin remediation and will consider the material weakness remediated when the applicable controls operate for a sufficient period of time and we conclude through testing that the controls are operating effectively. We expect remediation to be completed during fiscal 2023.

And with that, I'll hand it back over to Mike. Thank you.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Steve. Fiscal year 2022 was a solid year for Leslie's, and I'm very proud of the team's contributions and the results they drove. However, 2022 was also a year that reiterated the challenges in predicting how macro conditions can impact the business. We expect the 2023 macro to be more unpredictable and challenging than 2022 up to and including a recession.

Knowing we can't count on being able to accurately predict what macro conditions the business may face, we have prepared ourselves for a range of outcomes, principally driven by the levers that Steve discussed: discretionary and nondiscretionary product demand, trichlor retail pricing and inflation. Based on those scenarios, our 2023 outlook range is lower than our long-term growth algorithm. We think this is the prudent approach.

However, we think it's important to note that we do not see a scenario where we give back significant portions of the gains of the last three years. We remain confident in the durability of our business model and in our ability to grow our market share in challenging macro environments. This confidence is based on the fundamental advantages of the 80% of our business that is nondiscretionary and recurring in nature, the competitive advantages of our integrated system of physical and digital assets, and the further execution of our diversified strategic growth initiatives.

On slide 15, we have bridged to the midpoint of our 2023 sales guidance in two ways: by consumer group and strategic growth initiative. On the left-hand side of slide 15, you can see that we're modeling sales from our Residential Pool consumers to be flat, the PRO consumer group to contribute 1% of total growth and the Residential Hot Tub consumer group to contribute an additional 1% to our total growth of 2%. In this scenario, the growth in PRO and Residential Hot Tubs is driven entirely by noncomp stores and acquisitions.

On the right-hand side of slide 15, we bridge sales to the same midpoint scenario with no file growth, an average revenue per customer that reflects a negative 2.5% comp consisting of plus 1% AOV and minus 3.5% transactions and no comp growth in our PRO business. These negative scenarios for our first three initiatives are more than offset by our whitespace and M&A initiatives. It's important to note that with today's announcement of our most recent acquisition, the M&A contribution reflected on our midpoint guidance is substantially complete.

That concludes the earnings release portion of today's presentation. We're now going to shift into the investor presentation. As a reminder, we'll have an hour for Q&A on both the earnings and investor presentation at the end of our prepared remarks.

Slide 18. As I was reviewing our previous presentations, I realized that we have spent a lot of time explaining how proper pool care is necessary, complex and challenging. We make it sound like an unpleasant chore that has to be done. What we have not spoken to as much is how aspirational pools are, how much people love their pools, and how much people love the Leslie's brand. We do a lot of consumer insight research and pool owners are happy to share how they use their pools: for exercise, recreation, relaxation, entertaining, as a playground for grandkids and other fun-filled activities.

When pool maintenance is nondiscretionary, you can default to people maintaining their pools simply because they have to. The truth is they also maintain their pools because they love it, love all the ways they use it, and love all the memories they create. But they are also quite clear that maintenance can be hard, and that's where Leslie's comes in. Leslie's is the number one brand in pool supplies with the highest aided brand awareness, the highest unaided brand awareness, and the highest affinity.

When consumers describe Leslie's, they consistently use the words trust and expertise. What great attributes to be known for, what a responsibility for us to uphold, and what a great way to illustrate the value of the Leslie's brand. Leslie's is pool owners' trusted expert partner in maintaining a clean, safe and beautiful pool and all the moments and memories that come from it.

Slide 19, quick overview of the Leslie's business. We are the dominant direct-to-consumer market share leader in the pool and hot tub industry. Our physical network of 990 locations is bigger than our 20 largest competitors combined. Our digital sales are five times larger than our next largest digital competitor. And if our digital business was a stand-alone entity, it would be the number two pool supply retailer in the industry behind only our own store network.

We are the only direct-to-consumer pool supply company with true omnichannel capabilities. We launched the industry's first and largest loyalty program. And as we just discussed, our fiscal 2022, which ended on October 1, 2022, was a record year with sales growth of 16% to $1.6 billion and EBITDA growth of 8% to $292 million.

Fiscal 2022 also represented our 59th consecutive year of sales growth. 59 consecutive years of growth, growth in every year since the company was founded in 1963 by Phil Leslie in North Hollywood, California. That's a staggering accomplishment and a testament to both consistent execution and an incredibly durable business model. This streak is something the entire company takes great pride in and it's also a lot of pressure. No team wants to be the one that breaks the streak, but it is a pressure and a challenge that all of us in the company welcome.

Moving to slide 21. It's not just that we have grown every year of our history, we've also gained market share. In the last decade, we've gained 540 basis points of share. We're also confident that we gained share in the 2022 pool season. Based on third-party aggregated credit card data and our own internal data, our growth rate of 16% in fiscal 2022 was 1,800 basis points higher than our specialty pool competitors.

And as you can see summarized on slide 22, our growth over the last two decades plus has spanned multiple occurrences of a broad range of macro environments, including reduced rates of new pool builds, GDP contraction, housing industry slowdowns, declines in consumer spending, high inflation, and rising interest rates. In particular, as you can see on this slide, the business performed very well during the 2006 to 2009 recession, and over the last 22 years, has grown at a CAGR of approximately 4 times that of the installed base.

Slide 23 shows the same data in a different view, with the addition of which macro events occurred at which times. As you can see, many of these macro events actually overlapped, which means that the Leslie's business model has proven to be very durable during a variety of compounded, complex and challenging economic times. Today, we believe we are better-equipped to grow profitably in challenging macroeconomic conditions than at any other time in our history.

Slide 24 shows our recent results and 2023 outlook for sales and EBITDA. As you can see, over the last three years, we have grown sales at a 19% CAGR and adjusted EBITDA at a 22% CAGR, well above our long-term growth algorithm. As we discussed earlier, we do expect this top line and bottom line growth to moderate in 2023

and our outlook range contemplates a recession at the low end. But there are key attributes of our model that give us confidence in our performance, even in a recessionary backdrop.

Those attributes are: the performance of the brand and business in other challenging macro periods over time; the stickiness of the key secular trends that provide a tailwind to the business; the fundamental advantages of the nondiscretionary needs-based demand of the aftermarket pool industry; the competitive advantages derived from our network of physical and digital assets; and the momentum we have in our strategic growth initiatives.

Moving to slide 25. When I joined Leslie's in early 2020, I was impressed by what was at the time 57 consecutive years of growth and the industry-leading market share that growth had created. However, what I found even more interesting and attractive was that despite that lengthy track record of success, there were still significant growth opportunities. One of the first projects we undertook in 2020 was a thorough review and assessment of those growth opportunities to determine which were the largest and most significant; the most consistent and predictable; the ones we were best able to execute against; and which, when executed well, would provide us the greatest competitive advantage.

That comprehensive review by senior leadership led us to the definition and adoption of the strategic growth initiatives you see on slide 25. And as you can see, consistent focus on the execution strategy for each initiative has resulted in three years of strong results, and this despite having to simultaneously navigate the pandemic and recurring supply chain challenges. It's a gratifying start, but we still have lots of opportunities and room for growth across each of these initiatives.

Slide 26 is our senior leadership team. The breadth and depth of this team and their assorted experience and skillsets is what has allowed us to advance our strategic growth initiatives and drive our profitable growth. The team is an excellent mix of modern retail, financial and operating expertise, and all of them have a strong track record of success, both in their prior positions and at Leslie's. All of the team is here today and will be available for our Q&A session. And clearly, it's not just this team driving the results, it's the totality of our more than 4,000 associates, who took their effort and contributions to the next level with the pandemic and have sustained that performance since.

Moving now to slide 27. The events of the last three years, the pandemic, social unrest and now a macro economic slowdown has brought into clear focus for our organization the need to elevate our ESG program across the entirety of our business. As you can see, we have made significant progress across each of the environmental, social and governance components of our ESG road map. And importantly, we have aligned and integrated our ESG efforts into our culture and our strategy.

Over the last two years, we have accomplished the following: named our Chief Legal Officer, Brad Gazaway, as executive leader of our ESG initiatives and hired a Director of ESG; formed a sustainability working group comprised of internal resources and external advisors to work on ESG priorities and projects at direction of the board and management; published our inaugural ESG report in September of 2021, covering our fiscal 2020 and our second ESG report in September of this year covering our fiscal 2021. This year's report included our first greenhouse gas emissions analysis.

We elected James Ray, Jr. to our board of directors and appointed Mr. Ray as Lead Independent Director. Mr. Ray has extensive experience in supply chain and operating leadership. We also elected Claire Spofford, CEO of J. Jill, to our board of directors in May of 2022. With the addition of Ms. Spofford, our now 10-member board consists of six independent, four women and three ethnically diverse members. And all of our committees are now fully comprised of independent directors.

We have good momentum in our ESG efforts, and we are committed to continuing our work to be an organization that makes a positive difference for our consumers, associates, shareholders, and the communities in which we operate.

Now I'll turn it back to Steve to speak to three pillars we believe make Leslie's a uniquely advantaged business.

Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

Thanks, Mike. Let's turn to slide 29. So there are three key pillars that make Leslie's unique and that we believe make it a very compelling investment opportunity. Number one, we operate in one of the most advantaged consumer products industries. It's large and over $15 billion. It has nondiscretionary, recurring annuity-like demand because once a pool is built, it has to be maintained. And it has predictable growth. The installed base has grown every year for 52 years.

Number two, we have built a consumer-centric, integrated network of assets and capabilities that are unmatched in scale and reach and allow us to provide total pool and spa care solutions to all consumers, whatever their need and wherever, whenever and however they want to engage with us. None of our competitors have that capability. Despite being the largest direct-to-consumer brand in the industry, we have significant whitespace opportunities across the consumer types we serve and all the channels we operate. And we have the capabilities, talent and tangible growth initiatives to address these opportunities.

Now let's walk through the advantages of the pool and spa industry. On slide 31, you can see the market we operate in is made up of three types of consumers: Residential Pool, Residential Hot Tub and pool professionals, or the PRO market. Each of these markets is sizable, and in total, they add up to 14 million bodies of water and $15 billion of annual total aftermarket spend.

And two points I want to reinforce. The first is that Leslie's is the only company that addresses the needs of all three types of pool and spa consumers. And the second is we have significant whitespace opportunities with all these consumers, including Residential Pool, which is our largest consumer base.

Next, we'll spend a few minutes to walk through the annuity-like demand of pool maintenance. We'll turn to slide 33. And probably like most of you I've had a lifetime of exposure to pools and spas, but it wasn't until I got to know Leslie's that I began to appreciate the complexities of pool care. Let's start with a simple fact, pool care is more complex than most consumers expect, and yet, it's essential to get right. If you use a pool, you don't want any doubt in your mind that that water is safe.

There are six critical components to proper pool maintenance: it's water balance and sanitation, water circulation and filtration, and cleaning and water testing. It's an ongoing and iterative process that requires regular water tests in order to keep more than 10 different chemical ratios in equilibrium. And unless you have Leslie's water test prescriptions with specific actionable steps, achieving that water balance is trial and error. And if any of these chemical levels get out of balance, you quickly have a problem on your hands.

So let's turn to slide 34, where you can see that once a pool is built, maintenance is not optional. Deferring maintenance, draining pools or filling them in are all more expensive than maintaining them on a regular basis. The lack of proper maintenance leads to poor water quality, which can create health problems and damage equipment. If you drain a pool, the physical structure of the pool will be damaged or even rise above the ground. And if you fill it in, it's an expensive construction project requiring punching holes in the vessel, demolishing the

top layer of the pool, and on top of the out-of-pocket costs, it's going to reduce the value of your home. None of these are good alternatives to basic pool maintenance. And as a result, pools are long-lived assets.

On the next slide, 35, you can see the impact of regular maintenance over the life span of a pool, which conservatively is that more than 30 years. On average, consumers spend $900 per year on their pool for maintenance. So the spend during the lifespan of a single new pool represents over $27,000 of aftermarket spend. This spend is highly defensible. Each pool effectively creates an annuity-like stream of nondiscretionary demand. And when you factor in the estimated 340,000 new in-ground pools installed in 2019 to 2022, this has created more than $9 billion in additional maintenance demand over the life of those pools.

It's important to note that we are not dependent on new pool construction. As Mike discussed earlier, we have demonstrated the ability to grow in all economic environments as we primarily focus on the installed base of 14 million pools and spas. That being said, the installed base has grown more than 500% over the last 50 years since they started collecting the data, and it's grown each and every year.

So for the next few slides, we'll talk through a number of factors driving growth for the industry and for Leslie's. We'll start with slide 37. Many of the macro trends driving consumer demand in the pool industry remain intact and should continue to drive growth over the next several years. The desire for a healthy outdoor lifestyle, ongoing investment in the home and backyard, the great migration to the Sunbelt, a heightened sense of safety and sanitization, hybrid and full-time work-from-home schedules, and pool equipment innovation, all support the forecast for underlying growth in our industry to continue. Against this favorable industry backdrop, we are confident that we can grow Leslie's faster than the industry and across our consumer types.

Slide 38 shows the power of the migration to the Sunbelt. Projected population growth through 2040 shows one in four interstate movers are relocating to a Sunbelt state, with the West forecasted to grow at 21% and the South forecasted to grow 23%. Nearly, 60% of in-ground pools are located in the Sunbelt, and the number of pools per capita in the Sunbelt is more than 3 times higher than in winter markets. These migration trends provide a favorable backdrop for new pool builds and pool usage.

So let's turn to slide 39. Consumers are embracing innovation in the pool equipment product category, and we see substantial opportunity to increase penetration in the aftermarket. Key factors driving adoption includes a step-function change in energy efficiency, increased convenience for consumers in maintaining their pool, and many of the products just work better. A lot of the credit goes to our vendor partners who have done a great job developing new products that appeal to consumers.

It's also important to understand that the sale of these innovative products are heavily assisted sales and many require installation services. As Mike said earlier, when consumers describe Leslie's, they consistently use the words trust and expertise. Leslie's associates are uniquely positioned to introduce these products to pool owners based on our consumer relationships. And Leslie's is uniquely positioned to install products for consumers in their backyards through our approximately 350 in-field service technicians across the country. So associate knowledge and installation services are essential as there is a higher upfront cost for these products, but they offer great value to consumers.

Based on the level of penetration for these product categories across the aftermarket and new builds, we see an incremental sales opportunity of $15 billion over time. And this only accounts for the initial conversion to these new innovative products and does not factor in the increased sales related to future repair or replacement of the equipment.

Turning to slide 40. Leslie's is uniquely positioned to benefit from consumer trends. Through our integrated network that Moyo LaBode will speak about in more detail, we have the capability to serve the needs of all bodies of water and we can be agnostic around the classification of consumers as DIY or DIFM. In 2021, about two-thirds of consumers take care of their own pool, and about one-third of consumers hired a professional to take care of their pool. However, in a challenging macroeconomic environment like we expect in 2023, the percentage of DIY consumers may increase and we're positioned to capture any potential shift in our Residential Pool business.

We're also seeing a shift in shopping patterns where consumers are increasingly shopping at pool supply retail locations and dedicated e-commerce sites. According to Pkdata, there has been a favorable shift of approximately 120 basis points post-pandemic.

And finally, on this slide, you can see that consumers increased their usage of pools post-pandemic by about one day per month. While the increase in pool usage has been supportive of our growth, it has not been the core driver of our growth.

I'm on slide 41. You can see the evolution of our total addressable market, which further demonstrates the predictable growth of our industry. Starting at the bottom, the Residential Pool category, which is Leslie's largest business, has grown the fastest at a compounded rate of over 6%. Professional Pool has grown at 4%, and Residential Hot Tub has grown at 3%. All three categories have grown at a rate faster than the overall economy, and Leslie's has significantly outpaced industry growth as we continue to gain market share. Our current total addressable market is over $15 billion and its grown 67% over the last decade.

So in this section, we've reviewed key characteristics of the pool aftermarket industry. It's large, creates annuity-like demand and generates predictable growth. We continue to be optimistic about the growth outlook for our industry. And as the industry leader, we're even more excited about the growth prospects for Leslie's.

Now I'd like to turn it over to Moyo LaBode to review Leslie's integrated ecosystem. Moyo?

Moyo LaBode

Chief Merchandising Officer, Leslie's, Inc.

Good morning. I'm Moyo LaBode, Chief Merchandising Officer. I joined Leslie's about 18 months ago. Prior to Leslie's, I spent time at Barnes & Noble, Home Depot and Target in a variety of merchandising, sourcing and operations roles. I'm really excited to be part of Leslie's growth story. One of Leslie's most significant differentiators is our network of physical and digital properties, which is unmatched in scale and reach, consumer-centric, and allows us to provide pool owners with a total solution for a clean, safe and beautiful pool.

On slide 43, let's walk through each part of our integrated ecosystem, starting with the physical network. Over the last 59 years, we have built the most extensive and geographically diverse pool and spa network in the United States. It's comprised of three formats: Residential, PRO, and Hot Tub. Leslie's physical network consists of 990 locations including, 863 residential stores in 39 states, 80 professional stores and 47 Hot Tub stores

Our physical footprint ensures we are close to the customer. In fact, over 90% of pools in the continental US are within 15 minutes of a Leslie's store. Our digital network is a platform of complementary, branded, proprietary eCommerce sites and marketplace storefronts. This allows us to serve the needs of all types of digital customers. And, each site has a curated merchandising and pricing strategy to appeal to a specific customer.

Leslie's mobile app supports Leslie's sites and stores and has been downloaded over 600,000 times. We know over 60% of shopping starts online, as the phone has become the front door to most shopping experiences.

Leslie's.com has a complete pool lifestyle offering of products and services from trusted brands, including a large assortment of our own brands and products.

Leslie's PRO site launched in 2021 as a qualified access site for Pool professionals. It carries an extensive assortment specifically targeted to meet the needs of the PRO. The In The Swim site offers a broad assortment at great prices focused on the Do It Yourself and above-ground pool owner. We operate marketplace storefronts across Amazon, eBay, and Walmart. These storefronts offer a basic assortment of pool supplies at an opening price point. Taken together, our sites capture nearly two thirds of all online pool and spa traffic, and our network volume is over five times that of the number two online provider.

Turning to slide 44. Leslie's large physical, digital, and mobile footprints are brought together in an ecosystem called Leslie's Connect. The ecosystem supports millions of direct consumer relationships. Our omni-channel capabilities allow our customers to shop whenever, wherever and however they choose including, buy online pick up in store, ship from store, ship to store and buy online, return to store. Leslie's Connect creates a friction free and fast shopping experience for our customers. Importantly, Leslie's is the only pool and spa retailer with these capabilities.

Moving to slide 45. Our business model is a combination of product and service offerings. Leslie's product offerings reflect an extensive assortment with over 30,000 SKUs. More than 80% of the sales are from recurring non-discretionary products, like chlorine, that support daily and weekly pool maintenance. 55% of our product offerings are exclusive to Leslie's. For chemicals that number is over 85%.

Exclusivity drives consumer loyalty at a higher margin rate. There are two parts to our service offering, first, all of our locations offer expert advice and consumer education, free water tests and treatment plans, and free repairs and extended warranties for products purchased from Leslie's.

Second, we have the industry's largest in-field service team consisting of 350 certified technicians that provide on-site installation, trouble shooting, and repair. Our in-location and field services, testing, analysis, advice, education, installation and repair, are a critical component of the value equation only Leslie's offers to consumers. These services are a significant differentiator to mass, home improvement, club, and online competitors. Our competitors sell products which are only part of the solution. We offer a total solution that results in a safe and great-looking pool.

On slide 46. Proprietary chemicals are the backbone of our product assortment. They support pool openings, weekly maintenance and pool closings. The assortment also needs to and does serve a wide range and age of equipment. In fact, the average age of a US pool is 23 years. And as a pool ages, the likelihood of more frequent maintenance and repair increases. Aging equipment also represents a significant upgrade opportunity. Our assortment is constantly evolving to support present and emerging sustainable products that are energy efficient, and reduce chemical and water consumption. Perfect Weekly is an example of a best-selling sustainable item that is exclusive to Leslie's. Perfect weekly is a maintenance product that keeps pools clean, reduces chlorine use and lowers water evaporation all through a simple non-toxic formula.

On slide 47. Pool owners know that keeping pool water healthy, safe and looking great can be challenging. Pool water is always changing based on numerous factors such as weather, heat and rain, number of swimmers both pets and people and maintenance routines. Testing pool water, on a weekly or more frequent basis, ensures a healthy, well-maintained pool. Leslie's is the undisputed leader in water testing with over 50 million tests and 59 years of testing experience. Our expertise led us to launch the proprietary AccuBlue water test in 2020. AccuBlue

replaces difficult to use and inaccurate manual test strips with a digitized experience that delivers a pool score and step-by-step prescription for a clean, safe and beautiful pool. It's truly a game changer.

Moving to slide 48. Our integrated ecosystem is a network of assets, capabilities and expertise unique to Leslie's. At the center of it all, is our relationship with millions of consumers, both residential and professional. In addition, we offer differentiated products and services. And we bring it together with Leslie's Connect, serving customers through a physical, digital and mobile platforms. Regardless of their need, whenever, wherever, and however they choose to engage us, Leslie's stands alone in providing customers a total solution.

Now, I'll turn it over to Steve to discuss our supply chain.

Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

Thanks, Moyo. Over the next few slides, I'll talk about specific actions we're taking to improve our supply chain across three key areas, first, expand capacity, second, stock more inventory across our network finally, diversify our supply base. As we discussed on our last earnings call, during the third quarter we experienced execution challenges at our New Jersey distribution center. These challenges resulted from a delayed start to the pool season in the northeast, unforeseen levels of vendor shipments and DC receiving activity in season as supply chain disruptions moderated, and we didn't have the staffing and plan in place to support this combination of factors.

During the third quarter, we also experienced supply shortages from certain vendors in season that required higher cost substitutes to serve consumer demand. We believe the actions we took during the fourth quarter and the actions we will take during fiscal 2023 will improve service levels and mitigate supply chain risks.

One of our competitive advantages is our vertical integration in distribution. Our vertical integration enables us to optimize product flow and to better understand industry cost structure. On slide 50, you can see a layout of where our distribution centers and three 3PLs are located. Today, we operate six residential pool distribution centers, serve consumers through an additional four 3PLs, and we operate three manufacturing sites.

Our national footprint allows us to efficiently fulfill store and digital demand as our distribution locations are strategically located within the critical mass of stores and pool consumers in their respective regions. In fiscal 2023, our first opportunity is to expand capacity across our network and I'll highlight a few actions we're taking, first create flexibility to implement a two-shift, seven-day a week model during pool season. This will give us the ability to increase capacity in our existing distribution centers by over 40% when compared to the operating model in fiscal 2022.

In fiscal 2022, we were able to quickly scale up warehouse associates but we did not have shift managers or supervisors in place to effectively utilize the additional resources. We're investing approximately $750,000 to hire managers and supervisors across our network to be in a position to scale operations during pool season.

Second, add new 3PLs to support seasonal demand. In the past, we have successfully utilized 3PLs to support high volume SKUs in seasonal markets like the northeast. We have the ability to optimize order flow through the use of these facilities, relieve pressure on our existing distribution centers, and 3PLs have an attractive variable cost structure that we can utilize on a seasonal basis.

And third, we have hired a new omni-channel fulfillment leader who has experience optimizing omni-channel capabilities to meet consumer demand in the current environment.

On slide 51, we highlight a number of strategic investments on our roadmap that will allow us to better serve consumers, increase capacity, and optimize our supply chain. We start on the left hand side with the foundational investment of a new order management system that we implemented in 2020 to 2021. The rollout included Manhattan Active Omni and Salesforce Commerce Cloud which enabled the omni-channel capabilities Moyo just discussed.

The second bar is a key supply chain enabler, we're currently implementing new merchandise financial planning and inventory management systems that we expect to roll out in 2023. These new tools will allow us to optimize planning and allocation of products across our network to meet consumer demand and enable us to more effectively manage profitability across our portfolio of products and services.

Next on our roadmap are additional foundational investments that include new point of sale and enterprise resource planning systems. Both will be common platforms across our businesses that will allow us to better serve consumers, support organic growth, and accelerate the pace of integration of newly acquired businesses.

Finally, our next supply chain investment will be to upgrade our warehouse management system and we're targeting implementation for fiscal 2025. Our team has a track record of successfully implementing new systems and our entire organization is highly focused on continuous improvement.

Now let's shift gears and turn to slide 52 to review opportunities to improve our inventory position. Our top priority, as I discussed earlier, is to have product in-stock to meet consumer demand. Vendor supply chains have been unpredictable across a number of key product categories over the last few years and while we're pleased with our team's tireless efforts and the collaboration from our vendor partners, this unpredictability has impacted product availability, customer service levels, and we've missed sales. We're encouraged that supply chains appear to be improving, but we will continue to lean in on inventory investments until we see sustained performance leading up to and through pool season. We have the ability to use our balance as a competitive advantage and we will continue to carry higher inventory levels in both our stores and our distribution centers.

We will also focus on the earlier receipt of goods so we can use our distribution capabilities to position inventory across our network in advance of season. And as reminder, we primarily sell non-discretionary products and most of the incremental inventory falls into the chemical and equipment categories that are not subject to technology or fashion risk.

When we believe we have sufficient inventory to meet consumer demand through season and after we see supply chains across the industry become more predictable, then we will strategically manage inventory levels down to recoup some of the investment we have made in working capital over the last few years.

On slide 53, we cover our third opportunity to optimize our supply chain through diversifying our supply base. On the prior slide, I talked about the unpredictable nature of our supply chain. Over the last couple years, but more acutely in fiscal 2022, we experienced product shortages from a larger number of existing vendors in season. For certain products we offer to consumers, we work with a network of local, regional, and national vendors and a number of these vendors simply did not have the capacity to support our continued growth.

We have long-term relationships with a broad base of vendors across the country and across product categories. These relationships allowed us to get back in stock during the second half of fiscal 2022, but we experienced stock outs and we procured replacement product at higher costs for both the product and the distribution of those products to stores and consumers.

Going into the 2023 pool season, we will further mitigate supply chain risk by contracting supply with additional vendor partners and we will be receiving inventory earlier to minimize stock outs in season. We believe the actions we've laid out on the last few slides will materially improve our supply chain and position us to better serve consumers.

And now we're going to take a short break and will reconvene at 9:30 Mountain Time, 11:30 Eastern Time to discuss our growth initiatives. Thank you.

[Break] (01:06:07-01:30:14)

Farah Soi

Partner, ICR LLC

[indiscernible] (01:30:15) Officer at Leslie's. Mike?

Michael Africa

Chief Digital Officer, Leslie's, Inc.

Hi everyone, I'm Mike Africa, Chief Digital Officer at Leslie's. I've been in retail for 22 years helping companies rapidly scale their ecommerce businesses and accelerate their digital transformation. I joined Leslie's about 15 months ago and have never seen a company quite like it. The fact that the company has grown for 59 straight years is incredible.

As Mike said earlier, we have implemented six growth initiatives and have good momentum across all six. What I'm most excited about is the ample opportunity to continue this growth with expectations that each of the first five initiatives will contribute 100 to 300 basis points in growth on average over time. During the next few slides, I will be covering the first two initiatives, grow customer file and deepen customer relationships.

At Leslie's, we put tremendous focus on growing our customer file. It's a fundamental measure of growing market share and a healthy business. It's simple, if you grow your file, your business will grow. This is why growing our customer base is our number one priority in marketing and it's paid off with our target file growth over 25% the past three years. This is because we have clear advantages that we can leverage, first, a strong LTV/CAC ratio allows us to confidently invest in marketing. This is because pools create an annuity like demand. Once you have one, you spend money to maintain it year in and year out. Thus, we significantly invest in marketing and continuously improve our ROI through better targeting, optimizing channel mix, and delivering relevant content.

Our second advantage? There are over 8.7 million residential pools in the US and over the past 59 years, we've amassed a proprietary database of pool ownership. Yes, we know where pools are located, and where new ones are being built. This information allows us to micro target both new and existing customers. We leverage this information across all our channels including CTV, display, paid search, social, and direct mail. Then we layer on our first party data to further refine our targeting and deliver more relevant content.

Leslie's third advantage is our investment in our martech stack. Over the past several years, these investments include media mix modeling, multi-touch attribution, marketing orchestration and customer identification. These tools and capabilities allow us to manage our marketing investments differently. Rather than setting a dollar budget that we manage to, we set an ROI target that we spend to. If we continue to see our targeted return, we continue to invest. The investments allow us to optimize our mix to ensure a proper balance between top of funnel

to bottom of funnel campaigns. This builds awareness, drives consideration, and increases conversion across all channels.

Furthermore, with nearly 1000 stores, it allows us to measure our digital efforts not only online but offline as well, ensuring high return on our marketing dollars.

Turning to slide 56, our second strategic growth initiative is to deepen relationships with our customers. We use average revenue per customer as the primary KPI to measure this initiative. Moving forward, I will refer to average revenue per customer as ARC. As you can see on the slide, our ARC has increased 24% since 2019 and our share of wallet has increased 302 basis points during that same time period. As Steve showed earlier, pool owners spend $900 per year for maintenance. So, even with that 24% growth in ARC over the last three years, we still have a significant opportunity to gain additional wallet share.

How will we do so? First, we will leverage our marketing data to drive higher frequency, adoption into new categories, and drive growth in our Pool Perks loyalty program. Second, we will capitalize on our retail fleet of nearly 1000 stores, expertise of our store associates, and our continuous investment in digital transformation that create a customer experience that is impossible for smaller competitors and big box retailers to replicate. Through this network we will be able to drive more omni-channel shopping.

Third, we will continue to showcase our industry leading water testing platform, AccuBlue. As you will hear from Clay, AccuBlue is the most accurate test in the market that prescribes a proper treatment plan to help customers maintain a clean, safe, and beautiful pool. Finally, we will take advantage of the category expansion into eco-friendly products to drive higher ARC. As Moyo mentioned earlier, we are expanding our assortment to include sustainable products that are energy efficient, reduce chemical usage, and lower water consumption.

The above initiatives will help us retain customers and as you can see on the slide, our customers become more valuable over time with retained customers spending $354, 20% higher than our average customer.

Let's turn now to slide 57 and talk about our loyalty program, Pool Perks. Pool Perks is a powerful lever that drives higher retention rates and plays a key role in increasing ARC. Pool Perks best-in-class benefits, 5% rewards, free shipping, extended warranties, and exclusive offers, has really resonated with our customer base. When compared to non-members, Pool Perks members have a retention rate and lifetime value three times higher, and ARC two times higher. These metrics illustrate the value of the program and the importance of continuously messaging the benefits of the program. It nurtures our relationship with loyalty customers who represent 74% of our total transactions and 80% of our residential sales in 2022.

With our investments in marketing, focus on increasing ARC, and strong loyalty program we have created a solid foundation to grow our customer count and increase our wallet share.

Now I will turn it over to Paula who will be discussing the PRO initiative.

Paula F. Baker

Chief Revenue Officer, Leslie's, Inc.

Good morning, everyone. I am Paula Baker, Chief Revenue Officer at Leslie's. I oversee the sales and operations for our retail stores and service teams, our Hot Tub companies, our PRO business, and call center operations. Prior to joining Leslie's three ago, I served a number of roles at Best Buy with my last role as President of Retail.

I am excited to talk to you today about two of our strategic initiatives, our PRO initiatives and also our whitespace opportunity that we see for our stores.

First, let's start with our PRO initiative, as an exciting and growing part of our Leslie's business, Leslie's PRO business is unique in the industry. The total addressable market is approximately $4.4 billion, and because of our size, scale, and value propositions, we believe we have a unique opportunity to gain market share with our initiative.

We are the only company that can fully meet our customers where, when, and how they want to do business with us. And for our PROs whether online, in store, over the phone, or in the customer's backyard, we can serve our PRO customers in a way the best suits their business needs.

Our PRO initiative launched in 2020 with a three-part strategy, our Leslie's PRO Partner program, our Leslie's PRO stores, and the Leslie's PRO website. Since our launch, the PRO business has grown 73% and now represents 15% of the company's revenue.

Let me provide an overview of each of these three strategies as shown on slide 59 first, our Leslie's PRO Partner program. I'd like to define the two customer segments that our PRO initiative serves. The first segment our PRO customer is a pool trade professional that owns, operates, and oversees a pool service route. They are the typical one-poler that operates one truck and typically has a route of 50 to 75 pools.

The second segment, a PRO Partner, is a customer with whom Leslie's has developed a deeper relationship and has engaged in a partnership that is mutually beneficial. These PRO partners typically have two or more trucks and service 75 or more pools annually. All of our PROs primarily service the pools of our residential homeowners. They are business owners that want to continue to grow and expand their business and see Leslie's as the trusted partner in making that happen.

While Leslie's has served pool pros and professionals for decades, the PRO Partner program that we launched in 2020 offers a differentiated and significantly improved experience, which makes Leslie's valuable to these PRO partners. PRO partners receive preferred pricing, customer referrals for pool maintenance, rebate programs, and additional benefits, like AccuBlue water testing and in-store equipment inspection and repair. And, a PRO Partner spends on average more than 25 times what a residential customer spends on their pool, which makes these PRO partners very valuable to us.

Our second PRO strategy is our Leslie's PRO stores. Before I talk about the PRO branded stores specifically, it's important to note that every Leslie's store serves our PRO customers and PRO partners. However, the 80 PRO branded stores do have features that are specifically catering to the PRO Customer. Our PRO locations average 4,200 square feet and carry an average of 1,500 SKUs. The depth and breadth of assortment is greater than a typical residential store for the SKUs that are in highest demand for our PRO customers. The PRO stores generate two times the sales of a residential store and has a higher EBITDA contribution.

And, when we convert or build a PRO location, our PRO sales and Residential sales across the market increase. PRO locations do not cannibalize PRO sales from the surrounding stores in the market. Our PRO stores offer convenient locations, expanded store hours, expanded assortment, omni-channel capabilities, and a trusted partnership with our store teams that are trained and knowledgeable to specifically serve the unique needs of our PRO customers. Today, we have 80 PRO locations and we plan to convert or build another 20 PRO stores in 2023. And with the help of our third-party analysis, we have an opportunity to operate more than 350 PRO locations in the US.

And third, to complement our physical locations, we also launched our third strategy, which is our Leslie's PRO website. It's a dedicated, members-only website that allows our PRO customers the convenience of shopping online while at home, in their truck, or in the customer's backyard. This site offers omni-channel capabilities that allows our PRO customers to shop at their convenience and has product readily available for pickup in store or delivered to their homes, so that our PROs are maximizing their time, providing the best service to their customers.

On slide 60, let's talk about how we compete in the PRO space. Simply stated, we compete on convenience and value. As a company, our real estate strategy is very straightforward. We are where the pools are. 90% of all pools in the continental US are within 15 minutes of one of our nearly 1,000 Leslie's locations. That makes Leslie's the closest, most convenient location. We also understand that our PRO partners expect value in their products and the depth and breadth of our PRO assortment is high quality and competitively priced. And to further capitalize on our ability to compete in the PRO market, we have our sights set on continued growth.

Our targets for 2023 include 4,000 contracts with our PRO partners and a target of 100 PRO branded stores. And for the longer term, we have our sights set on targets of 10,000 PRO Customer contracts and over 350 PRO locations. Our PRO partners are business owners that want to do business and grow and expand, and see Leslie's as their trusted partner. We uniquely deliver what is most important to these PROs, convenience and value. That's why I said at the beginning, our PRO business and our PRO partners are an exciting and growing part of our business.

Now, I'd like to turn to slide 61 and talk about the whitespace opportunities that we see for our stores. First, some context on our residential stores. Our residential locations average about 3,500 square feet and carry approximately 900 SKUs. Our upfront investment is approximately $350,000. The maintenance capital is modest and cash-on-cash returns of more than 35% in year four. As of the end of 2022, Leslie's operates 990 physical locations across 39 states. These include 863 Residential locations, 80 PRO locations, and 47 Hot Tub locations. We believe we have a clear path to doubling our store count through a mix of new store openings and M&A.

We take a top-down approach to expand our physical network. We say that we are where the pools are and that's no coincidence. There's a high correlation between pool density and store performance in any given market. The more pools, the more non-discretionary demand, the better the stores perform. So, we begin by identifying markets with high pool density where Leslie's is either underrepresented or does not have an existing presence, utilizing a mix of proprietary data and third-party data.

Once we identify that target market, we canvass the competitive landscape to determine if local pool owners are adequately served by existing specialty pool retailers or if there's whitespace opportunity for new growth. Then, we take a buyer build approach to enter that target market. We either acquire a well-run hometown hero, or if none are present or actionable, we build new stores. This represents a significant opportunity for Leslie's. We've identified nearly 700 incremental residential whitespace opportunities and nearly 200 PRO opportunities. Capitalizing on these two opportunities adds nearly 900 store locations and brings our store count to nearly 1,900.

The M&A opportunity is much more significant. We estimate that there are 8,000 independent specialty retailers in the US and 2,500 hot tub retailers in the US. It's important to note that we can also target underserved markets with targeted digital outreach and branded marketplace sites. This can be particularly efficient in markets that have lower in-ground pool density and may not have the right economics for a physical location. Finally, whitespace is dynamic, not static. We've discussed the secular trends in population migration to the South and

Southwest and we've noted consistent growth in new pool installations. Over time, we expect the installed base of pools to grow and new pool markets to develop, creating additional opportunities for store expansion.

Now, I'd like to turn it over to Clay to talk about our last two initiatives, M&A and disruptive innovation.

Clayton Spann

Vice President Growth & Strategy, Leslie's, Inc.

Thank you, Paula. My name is Clay Spann. I'm the Vice President of Strategy and M&A and I've been with Leslie's for two-and-a-half years. Before Leslie's, I was with JPMorgan's Investment Bank, advising consumer and retail companies. I later joined L Catterton, where I invested in consumer businesses and worked closely alongside management teams to develop sustainable long-term growth strategies.

Now, at Leslie's, I oversee Corporate Strategy and M&A. I'll start with M&A. Between 2010 and 2020, Leslie's acquired one business per year on average. In late 2020, we established M&A as our fifth strategic growth initiative and began to accelerate our pace of acquisitions. We acquired three businesses in 2021, six in 2022 and, as Mike noted earlier, we have already completed our first acquisition of fiscal 2023. The 10 acquisitions completed over the last two years account for nearly $140 million in sales and $25 million in annual adjusted EBITDA, and we're just getting started.

We've acquired five businesses in the last six months alone and our pipeline continues to build. The specialty pool industry is highly fragmented. We estimate there are 8,000 independent specialty pool retailers in the US, representing $5 billion in annual volume. This is a significant opportunity with a long runway, and Leslie's is uniquely advantaged to consolidate the industry based on our scale, value-added capabilities for the benefit of our consumers and, importantly, our brand. We complement our programmatic M&A practice with a programmatic integration playbook. We bring to bear our resources and competitive advantages to accelerate the growth of these newly acquired businesses, while optimizing cost structure.

As evidenced, we've taken our fiscal year 2021 acquisitions and we've grown their top line by 45% and more than doubled their EBITDA contribution during the first full year under Leslie's ownership. Our programmatic M&A practice is driving shareholder value. The $120 million invested over the last two years has brought in $25 million in incremental EBITDA. Capitalized at our consolidated trading multiple, that's roughly $200 million in equity value creation. So, three things I'd like for you to take away. First, Leslie's can deliver significant growth through M&A. Independent players represent approximately $5 billion in annual volume. Second, M&A is a sustainable growth driver. With 8,000 independents, there are always actionable opportunities. And third, Leslie's M&A practice is highly accretive. We transact at attractive multiples and capitalize on significant synergy opportunities to deliver superior risk-adjusted returns.

Now, let's review our final strategic initiative, disruptive innovation. Leslie's has a strong legacy of disruptive innovation. Since our founding in 1963, we've the leading innovator in our category and provided our consumers with the most advanced pool and spa care available. As we have scaled, we have leveraged our competitive advantages to strategically reinvest in our business and intellectual property to develop new value-added capabilities. In 1963, we pioneered complimentary in-store water testing. We later added complimentary in-store equipment repair services.

In 2014, we introduced the industry's first loyalty program. In 2021, we developed the industry's only omni-channel platform. And most recently, we began piloting AccuBlue Home, the total at-home solution for a clean, safe and beautiful pool. One of the most impactful offerings to come out of our disruptive innovation practice is our in-store proprietary AccuBlue water test experience. We use best-in-class water testing technology and pair it with

our proprietary AccuBlue software to deliver the most comprehensive and accurate test results available to pool owners.

This is the only end-to-end total solution for water testing and treatment, and it's offered for free in all Leslie's locations. Other pool supply stores may offer free water testing, but their tests are far less precise, less comprehensive, they rely on manual calculations, and any treatment recommendations are prone to human error. Here's a quick look at the differences between the Leslie's AccuBlue water test experience and the water test services provided by other pool supply retailers.

[Video Presentation] (01:53:52-01:55:36)

As you can see, we have the most comprehensive, accurate and actionable water test in the market and that matters, because it grows our share of wallet with consumers and has been proven to be a powerful retention tool. Customers who regularly test their water with us spend two times more than those who don't. They transact twice as often and the ease and accuracy of the water test experience keeps consumers coming back to Leslie's. We are two times as likely to retain a water test customer than a non-water test customer. Simply put, customers who test their water with Leslie's spend more with Leslie's.

So, in 2020, we began developing a way to make it even easier for pool owners to test their water with us. A year later, we began piloting AccuBlue Home, a comprehensive water testing and treatment program that brings our proprietary AccuBlue technology into the homes of our consumers. Here's how it works. Pool owners sign up and, in return, they receive an AccuBlue device to test their water from the convenience of their own home. The device is integrated with the Leslie's mobile app, which processes the test results and generates a pool score and the same comprehensive easy to follow treatment plan Leslie's customers receive and store. Pool owners can then buy the products they need through our mobile app and have them delivered right to their door or pick them up in store.

AccuBlue Home membership is $50 a month and, in return, members receive $50 in monthly credits. So it's practically free. The credits are good for a year and could be used toward any product purchases from Leslie's, in app, online or in store. At $50 per month, program members are committing $600 of their annual pool supply spend to Leslie's. As Mike Africa pointed out earlier, our average revenue per residential customer is just shy of $300 per year, and the average pool owner spends $900 per year on pool supplies. So, when a pool owner signs up, they're not committing to spend any more on pool supplies than they normally would. They're just committing to buy more of what they need from Leslie's.

We've been piloting AccuBlue for over a year now. Here's some of our preliminary observations. On average, AccuBlue Home members increase their spend with Leslie's by 80% after enrolling in the program. AccuBlue Home customers spend three times more with Leslie's than non-AccuBlue Home members. And finally, consumers see value in the program. After over a year, we've retained 75% of our original pilot program members. We're highly encouraged by these results, but we're also keenly aware that we have some early adopters in our pilot group, who are demonstrating super user behavior.

Now, let's shift gears to discuss what we have in store for the future. During the last year, we completed the development of our next-generation version 2.0 AccuBlue Home device. We're piloting this new version with select consumers and the early feedback has been positive. They like how it looks, they like that it's easier to use, and we like that it's less expensive to produce. I'm pleased to share that Leslie's will be opening the AccuBlue Home program to the public for pool season 2023, complete with our next-generation device.

[Video Presentation] (01:59:23-02:01:06)

AccuBlue Home is poised to fundamentally change the way consumers test and treat their water. We surveyed hundreds of pool owners across the country, some who shop with Leslie's and some who don't. And nearly 60% expressed a high or very high level of interest in joining this program. The broad appeal of this offering gives us some indication of just how impactful this offering can be for our business over the coming years. For the near term, we're planning on producing 10,000 units in fiscal 2023. We're really excited about the upcoming release of AccuBlue Home, and so are our customers because there's nothing else like it in the market.

No one else is able to offer the most comprehensive water testing technology to consumers, let alone through a program that pays for itself. No one else has the benefit of nearly 60 years and 50 million water tests behind their proprietary treatment plan software, and no one else has a nationwide omni-channel platform to make the recommended products available to pool owners same day. Simply put, AccuBlue Home is the total at-home solution for a clean, safe and beautiful pool, and it's only available at Leslie's.

With that, I'll turn it back to Mike to wrap things up.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Clay. Okay, everybody, look at the device, take some pictures, you can't take it with you, though. It's not part of the gift bag. We're going to end the presentation today repeating the three key pillars that make Leslie's unique, and then, we believe, make it a compelling investment. First, we operate in one of the most advantaged consumer products industries. It's large, $15 billion plus. It has annuity-like demand, because once a pool is built, it has to be maintained. It has predictable growth. The installed pool base has grown every year for 52 years.

Number two, we have built a consumer-centric integrated ecosystem of physical and digital assets that is unmatched in scale and reach, and that allows us to provide total pool and spa care solutions to all consumers, whatever their need and wherever, whenever and however they want to engage with us. None of our competitors have that capability. Number three, despite being the largest direct-to-consumer brand in the industry, we have significant whitespace opportunities across all of the consumer types we serve and all the channels we operate. We have the capabilities and talent to address these opportunities, multiple early-stage strategic growth initiatives, and a pipeline of disruptive innovation, like AccuBlue Home that only Leslie's can bring to the pool and spa consumer.

In a unique and advantaged industry, Leslie's is uniquely positioned and advantaged to win and we are winning. We have grown for 59 consecutive years by being a trusted expert partner to our customers by knowing understand their needs and their pools' needs and by providing a total solution for a clean, safe and beautiful pool. This has made us the undisputed industry leader and we are obsessively focused on maintaining and growing that position, regardless of the macro environment. That ends our prepared remarks. I'm going to have the team come up on the stage, and then we're going to open up for Q&A.

Caitlin's going to come around with a microphone for people with questions.

QUESTION AND ANSWER SECTION

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Okay. Great presentation, guys. Jonathan from Jefferies. I had two quick questions, one near term. Steve, just on trichlor, could you clarify the impact for next year? I think you mentioned it's Leslie's intention to maintain pricing at current levels and you're not seeing recent price declines. So, could you put more context around that 12.5% decline on slide 13?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I'll take that one, Jonathan. Look, we have very clear visibility to chlorine costs. And I think if you track the commodity prices of the inputs, they have not rolled over. We don't see any cost increases. In fact, we see a cost increase in the industry. We don't intend to lower trichlor prices. At current prices, we're seeing nice demand. We don't think there's a catalyst for anyone to bring prices down. That being said, we get asked consistently about what happens if trichlor deflates. We don't expect trichlor deflation, but we thought at the low end, we would model that scenario, and that's what we have in the numbers. But we don't see a catalyst for that to come down. And we are certainly not planning to bring trichlor prices down.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

And then just a quick follow-up question in terms of water testing. At IPO, you mentioned 22% of your customers test their water regularly. Where is that today, and are there any internal goals there? Seems like there's a lot of opportunity with those customers spending so much more.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

I got that one.

Paula F. Baker
Chief Revenue Officer, Leslie's, Inc.

A

The answer is we've got 60% growth in our water testing [indiscernible] (02:07:34).

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We're approaching 40% penetration in the customer base with AccuBlue water testing. So, still a lot of room to go, right. I mean, that's a nice number. But when you think about the advantages of the test and the prescription it produces, we should be higher. But we are seeing nice growth.

Sarang Vora
Analyst, Telsey Advisory Group LLC

Q

Hi. [ph] No worries (02:08:01). Sarang Vora, Telsey Advisory Group. It seems like for next year and forward, the store growth opportunity is very solid for you guys. And I know you highlighted about 700 stores that you could

open in the long term. So, my first question is, can you help us identify some of the key markets where you feel like you are underpenetrated and there's a bigger opportunity in the near term than the broader context?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. The nice thing about that opportunity is it's predominantly infill in markets we're already in. And if you look at the states across the country, even though we have a very nice business in California and a very nice business in Florida, we are underpenetrated in those two states based on pool density.

Sarang Vora
Analyst, Telsey Advisory Group LLC

Q

And the second one was on M&A. You did six acquisitions this year and the CapEx plan that Steve mentioned had $15 million for M&A. So, just trying to connect the dots. Does it slow down in 2023, compared to 2022, or you could see more as the year progresses and it's just not in the guidance right now?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

I'll take that. Yeah. So, you noticed six acquisitions, about $108 million of total spend. We expect the pace of acquisitions actually increase, the dollar amount should come down, right. So, when you think about we have a conservative estimate in for 2023 of $15 million, so 1-5. $15 million of spend obviously requires a counterparty to execute. And so, we're actually going to have a plan that has lower expectations from an M&A perspective, but we're focused squarely on pool supply retail in the Sunbelt. We talked about the demographics. We talked about some of the trends from discretionary versus non-discretionary. In 2023, very focused on Sunbelt, very focused on pool supply retailer, great pipeline, great multiples. We're a great partner and there's a lot of great opportunities out there that we're going to transact on in 2023.

Paul Galat
Analyst, William Blair Investment Management

Q

Hi, there. Paul Galat, William Blair. I had a quick question on that same slide 13. Have you guys ever seen in your history non-discretionary items down 5% to flat? I'm kind of curious if just in that category, you could break out price and volume in your assumptions. Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Let me clarify a little bit, too. When we say non-discretionary sales, ex-trichlor down 5%, that's prior to in the inflation that we expect, right. So, with 5% inflation, that would basically go to flat on the low end. We haven't really seen price deflation in the industry in the past and we have not seen the non-discretionary component of sales go down. So, we think that is a prudently, but quite conservative view on the pool industry. It would be a little bit out of bounds with pool industry history to see anything worse than that, for sure.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Thanks. Ryan Merkel, William Blair. A question on gross margin. I think you have product margins modeled flat. Can you just talk about how you're going to offset trichlor deflation? And then, does your guidance assume any promotions in any of the other product categories?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Steve?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. So, from a gross margin perspective; so, low end of the range minus 35 basis points, high end of the range flat. So modest degradation at the midpoint. When you think about margin profile for next year, we're going to see business mix moderate, right. It's been 110 basis points in Q4, full year 2022, full year 2021 as well. Expect with slower growth, we'll see some moderation in that business mix impact. When you go down P&L, the next line that I talk about is product rate, I actually see an opportunity to continue to drive increased product rate margin across our businesses in each of our consumer types.

It will be more moderated than we saw in the last year. This year, down a little bit, but it's certainly more moderated than 2021. And then you get down to occupancy costs, slower growth, going to have less leverage than we've had in the past couple of years. And distribution costs will be kind of flat to slightly negative from a gross margin perspective. So, overall, see it being down kind of 15 basis points like kind of the midpoint from a gross margin perspective, and that walks through some of the differences between what we saw in 2022.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

And how are you going to offset trichlor deflation, which is being modeled? Is it just lower cost or is it timing of inventory, just talk about that?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. So combination. So, we are very strategic about how we manage product rate increases. It's everything from product mix along category level down to the mix and sizes of buckets. We're seeing consumers in some scenarios or some situations look for smaller-sized buckets. Trips are more frequent. But overall, the demand is still there. So, we have opportunities across our product SKU set, product categories to take strategic price increases across the country. And we'll use that coupled with proprietary brand strategies to improve margins as well, and that should offset any pressure that we might see if we do see trichlor prices come down.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Steve Forbes, Guggenheim. Maybe just two follow up topics. The first is on DC costs. Steve, the investment in supervisors' dual shifts, maybe just provide a little additional color on what that run rate of spend is on a quarterly basis? I think you mentioned $750,000. Is that the comparison to the $7 million that was guided for the fourth quarter, or what was spent in the fourth quarter?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Sure. Great question. So, when we look at spend, we talked about $5 million in Q3. Q4 was a little over $5 million from a total spend perspective. When we talked about the $750,000 for managers and supervisors, those are dedicated resources on staff, full year to enable us to flex up to seven day a week, two shifts per day. As you think about overall distribution cost increases in 2023, that'll be closer to $5 million, a couple of million a quarter

for Q1, Q2, about flat in the second half. When you think of the second half, that's when we had the higher or elevated costs.

So, we have talked in the past as well that as we looked at planning for fiscal 2023, there would be some upfront investments in the first half of the year. We would take out the inefficient spend that we incurred in Q3, Q4. We would then reinvest back into the business to ensure that we can meet the demand. Now, we talked about a 40% increase in capacity. Obviously, we don't have a 40% increase in sales. This gives us the ability to flex up across our entire network to that two shift, seven day a week, we'll be very strategic about when and where we spend, what markets to enable increased capacities, and ensure we don't miss demand like we did in the second half of this year.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you. And then the second follow-up topic is just on M&A as well. I think Clay mentioned $25 million of run rate on $140 million of run rate sales on EBITDA sales, which is an equivalent margin profile. So is that where that business is running today? And can you give us any color on where that run rate was when you actually acquired those 10 acquisitions?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

Yeah. Thanks for the question. So that $140 million of sales and $25 million of adjusted EBITDA, that's run rate at the time of acquisition, right. And so, as we called out, the 2021 acquisitions, there were three in 2021; during the first full year, we grew their sales by 45% and doubled their EBITDA contribution. So, that $25 million now that we're running the Leslie's playbook, right, you can assume that that's going to grow in our ecosystem.

Q

[indiscernible] (02:16:12-02:16:23)?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

No. So, that was specific to the three businesses we acquired in 2021. And to be clear, the $25 million of adjusted EBITDA is at the time of acquisition. Those businesses are delivering more than $25 million of run rate EBITDA now that we've implemented the synergies, right. So, is that clear? Does that make sense?

Q

[indiscernible] (02:16:48-02:17:00)?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

Yeah. That's correct. Any of the additional deals that we'll do during 2023, you can think about as upside to the outlook.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We've just made the decision that we're not going to forecast M&A, right. As we have deals completed, we'll announce them, but we're not looking to forecast it in the future.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning, everybody. Ken Zener, KeyBanc. Two questions. Could you address at the local level your store manager KPIs, given that that is really where the rubber meets the road in a lot of ways separate from the omni-channel approach you have? And then, could you illuminate some of the factors that drive the higher EBITDA contribution you talked about in the PRO stores? Is it just store efficiency, given the sales, or what other factors go into that? Thank you.

Paula F. Baker
Chief Revenue Officer, Leslie's, Inc.

A

So, let me start with the KPIs for our store managers. We have six initiatives, which you'll hear about during the store tours later today that we focus on with our value propositions. Water test, of course, is one of them. But from a strict KPI standpoint, we spend a lot of time talking about organic growth measures of traffic, transactions, average order value, units per transaction. We spend a lot of time with our teams on that. And then, we have the initiatives that we look at with respect to omni-channel water test experience, services, et cetera that we also track by store and coach by store. That includes our PRO initiatives as well. [ph] Does that answer (02:18:36) your question on that?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I'll add maybe a little bit to that. The general managers, or what we call, our store managers, because when you think of it now with omni capabilities, they're running what amounts to a store for residential customers, PRO customers, some commercial customers, they're shipping from store, they're taking returns in store. So, a year ago, we changed their title to general manager to reflect that expanded base of responsibilities. They are bonused on their store contribution. So they have their own mini little P&L. And as part of their P&L, the ship from store sales that they facilitate, are counted as toward their sales. So that's how we got buy in on executing the omni-channel capabilities.

I also point out, which we think, has proven to be a very good move is our general managers are equity holders. They get granted equity. They get up in the morning. They go to their store. They know they own part of that store's success and it's proven to be a real good model for us.

Second question was on PRO contribution is predominantly because of the volume. Right. Once we convert a store or open a store, the PRO stores do about twice the volume. And so it's that much better leveraged what amounts to only 1,000 extra square feet on average.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. This is Michael Kessler, Morgan Stanley on behalf of Simeon Gutman. Thanks guys. First a near-term and then a long-term, sorry, one more on Trichlor pricing, I guess the high-end still down 10% pricing. Is there an upside case even to that if you're able to hold pricing as you're speaking to? And then on the other piece, just

broad-based inflation of 5%, can you talk about where that's coming from, is it broad-based across categories and the visibility on that piece too?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. I mean, you can do the math. I think with the numbers we've prepared, though, right if trichlor stays flat. Yeah, it's a nice upside to the high end of the guidance. The second part of the question. Sorry.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Did the 5% inflation that assumption?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. We see that across the board. Right. We know it very specifically from our equipment providers. They do announce price increases. The rest of it is predominantly product cost inflation that we're continuing to see and that we plan to pass on through retail price increases.

Michael Kessler
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. And the second question on AccuBlue Home, the pending rollout. It sounds like there is definitely some share potential, incremental sales opportunity. Have you size up or can you talk at all about if there's any margin implication, I guess I don't know if the product, providing the product, if there's an upfront cost associated with that, if you look at that at all?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

Yeah. Happy to speak to that and thanks for the question. As we pointed out, when members join the program, they increase their spend with Leslie's considerably, right plus 80%. And that's for the average member right. If you look at the full pilot group, comparing their spend pre and post, that was up more than 100% right. So from margin implication standpoint negligible because you're getting all that incremental volume from the upside that we're able to achieve through share of wallet gains and that's really the core strategic objective of the program.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

I just add to it as well. When you think about some of our better consumers, are those consumers who test their water more frequently. We know consistently that bodies of water are under sanitized, creating a more convenient opportunity for consumers to test in a more regular basis and engage with that water test prescription to understand the condition of their water and what it takes to have a perfect pool we think is incredibly valuable. If you think about what it should drive, it should drive engagement with the pool. It should drive the entire product mix. More specifically, it should drive chemical mix even more, because that is what comes out of the water test prescription in each and every time.

So there is opportunity to think about what this could be in a larger scale, what it could do from a margin perspective, given the mixed more towards chemicals, is the solution that comes out of that water test prescription. But it should have an impact across product categories as well.

David Leonard Bellinger
Analyst, MKM Partners LLC

Q

Hey, guys David Bellinger with MKM Partners. Two questions. First, one, much shorter term in nature on the Q1 to date, so we're almost two thirds through the quarter, I know you talked about some less favorable weather that's popped up. It's just how do you assess weather versus something larger play with the consumer? There are certain regions or categories that are performing better that give you that confidence?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, I think the way to think about that as we use a couple of different weather services, right, that both show weather, predict weather and show the impact by region for us on sales. So we think we have pretty good insight into what the impact of weather has been. And, it went from a slightly favorable Q1 last year in which we had a 21% comp to this year, I think most of you've seen it's been – yeah, it's been tough weather all the way across the country.

I mentioned Florida and the hurricane there that though it had a lot of – it impacted a lot of people was a tragic event, pretty immaterial to the business. Our Florida business has been strong all through 2022. It was up 20-plus-percent. The rest of the Sunbelt was up like mid-teens. So good business in Florida, didn't necessarily see the spike there that we saw in Texas, for example, with the Texas freeze.

David Leonard Bellinger
Analyst, MKM Partners LLC

Q

And my second one just on the expense growth. So up 79% in 2023. Can you break out how much of that is structural with labor cost inflation versus more of the investment spend or leaning into some of your investments? And is there a point where SG&A dollars can begin to flatten out or at least grow at a lesser rate than sales growth at some point?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. Great question. So when you think about – let me back up to 2022, we've talked about our cost structure, it's about a third variable, a third fixed and a third semi-variable. There are two distinct differences in 2022 that impacted the business one, inflation. Inflation ran about 2.5 to 3 times higher than normal. Normal in our business is 1% to 2% or maybe 3%. It was running in the high single digits this year.

And then second M&A, non-comp SG&A, right, had a material impact in 2023. So with the plan to lower M&A in 2023 I would expect less implications from M&A non-comp. From an inflation perspective we do see some moderation still going to be above normal again, not going to get back down to that 2% or 3% likely in the mid-single digits. So still have an outsized impact. You couple that with slower top line growth and that's going to have a leveraging impact. So as you think about longer term and our long-term algorithm, getting sales in that mid to high single digits, seeing some stability from a supply chain perspective and some lowering of inflation, seeing some stability from an interest rate perspective kind of gets us back into that environment where the long-term growth algorithm is more reliable on an annual basis.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Great. Hi, Liz Suzuki, Bank of America. Just in the sales bridge by initiative on slide 15. It looks like you expect customer relationships to be a net headwind, which I imagine is based on a reduction in spend per customer. So

should we think about that headwind as being a combination of the top line, lower Trichlor pricing and lower discretionary demand in the guidance, but potentially offset by a positive impacts of innovation like AccuBlue and the other things you think are increasing the spend per customer. How should we think about the net impact of those?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, let me take a step back and address kind of Q4 and the full year 2022 where we ended up ticket transaction. Interestingly, they were the same, which was a 16% increase in AOV and flat transactions. For the quarter and for the year, transactions were slightly negative in stores and positive in our digital business. In the midpoint scenario of our guidance, the way we get to that minus 2% on customer relationships is a plus 1% AOV and a minus 3.5% transactions is how we're thinking about it.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

And then second question was just on talking about inventory levels, it looks like you want to maintain higher inventories until the supply chain normalizes. Do you have any visibility into the timing of that normalization?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah, unfortunately not at this time. So again, the two key pieces I talk about, serve consumers, have product in stock, don't have stock outs, number two we see some supply chain normalization, more predictability from a flow of inventory. When we see those two change, then we'll start reducing the investment. You look at the last two years and look at a cash flow statement, $180 million of incremental investment from a total inventory perspective, it's sizable. We understand that we find it more important to make sure that we're bolstering our consumer relationships. We're not missing opportunities. And we talked about in Q3, we missed opportunities to grow sales even more than we did, record year, fantastic on top line.

And from an EBITDA perspective, we know we can do better. So it's a – we're very conscious of the working capital investment that we've made. We think there's a path to potentially see some mitigation and recoupment of that investment this year, but we're not going to count on it until we see it happen through pool season.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, I'll just reiterate that, when we talk about the consumer work we do, the fact that trust comes up from our consumers, I mean, that's an unbelievable attribute and asset. And when we're out of stock of a product, particularly of a product that's part of our AccuBlue test results, it's just not acceptable. And we have not been at the in-stock positions we wanted to be, frankly, for the last two years. So this investment in inventory, it's very strategic. It's very purposeful. We know it's high, but we're not backing off of that until we've got absolute certainty. They were at levels of inventory to serve the demand we see.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hi everyone. Peter Keith with Piper Sandler. Thanks for all the detail in the presentation deck today. I want to dig into the unit growth outlook, so it's a bit surprised that you are looking for a near doubling of the store base. Just go back a couple years ago, pre-IPO, you weren't really counting on any unit growth. So kind of A, what changed?

B, how can you double the store base when you're already within 15 minutes of 90% of pools and C, why not take unit growth up more than 1% to 3%, it certainly be more a unit growth story and get a better multiple.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. When you look back to the IPO, right, first of all, I was new. Right. We are just looking at the breadth of opportunities we've had in front of us. Right. So really, if you think of 2020, it was okay, let's get our growth initiatives defined. Let's make sure that we understand our strategy to execute against them. And then let's make sure we do the homework and by homework on store openings. I mean, the third-party study we did to identify based on pool density and density of pool supply stores what were underserved markets. So until we started, we weren't comfortable accelerating store builds until we saw that data. And we wanted to make sure that we were going in very specifically and very strategically on specific markets. And I'm glad we did, because if you just look at it, well, you should go where you don't have stores to your point. What that study showed us is and as I mentioned earlier, it's infill opportunities. We can just be denser where we already have stores and it's particularly California and it's particularly Florida.

So I think the kind of purposeful, stepwise approach we took paid off. And as we started our programmatic M&A, I'm going to say developed that capability that opened a whole secondary way to address an underserved market. And right now I'm going to say the asking rates of landlords is little dislocated to the economy and right now the reason we're pushing on M&A is we can acquire a company and it pays back quicker than opening a store at the moment. So, we've got both those tools in our toolkit right now and feel very good about our opportunity to execute both of them.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. The final tool in our tool kit is omni-channel, right. So, we now can fulfill from 990 locations across the country, it opens up an opportunity to serve those markets potentially without having new square footage growth. That being said, we do there's 8,000 independents out there. There are plenty of opportunities for us to continue to grow share through great partnerships, as well as opening new locations across the country.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Thank you. And maybe a short term question for Steve, like Q1 seems like there's a couple of different dynamics with a little bit of weather softness, gross margin compares tough and then some elevated investments on a low revenue base quarters, I know we have to frame up EBITDA or EPS for the quarter just so we don't miss model it?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah, we've not provided specific guidance on a quarterly basis, just the annual guidance did talk about first half of the year is going to be negative comps for the first couple of quarters. I can see some pressure on margins for first couple of quarters as well, as we get into Q3 that's when we have opportunities to make up from a margin perspective, both in stock position from an inventory perspective as well as the missed sales that we talked about in Q3, right really not in our model, right that $35 million of sales that we missed in the Northeast. We certainly think it's an opportunity. We have positive comps in Q3 and Q4 in our overall model, but we think we've got to get through the first half of the year from a sales perspective. When you think about the strength of our performance

last year and really last two years in the first half, pretty robust. So we're going up against the largest comps of the year in the first half. I feel it's prudent to make sure that we're being conservative in our interview for the first half.

Jonathan Andrew Baldwin
Analyst, WR Securities LLC

Q

Hey, this is Johnny Baldwin with Wolfe Research on for Spencer Hanus. I was just curious, as you continue to invest more in the PRO business, how do you think that that will be as a percentage of sales over time and also to see implications on margins? Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We don't disclose margins in the PRO business, but our strategy there is to be price-competitive with our competition. So if you look at the margin profile, some of the larger PRO suppliers, then it would give you some idea of where we're at. It's a big opportunity for us, right? $4.3 billion, rather quickly grown to 15% of our sales. We haven't set any long-term targets as a percent of sales. But I would expect for the next several years for it to outgrow our Residential business in terms of absolute growth rates.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. Last comment on that as well. When you think about margins, so gross margins, our PRO business is less. They're lower than Residential. When you get to contribution, PRO margins are fantastic, again, doing double the volume through our stores. And so, when you think about how does a consumer treat their body of water in their backyard, DIY, DIFM, we're agnostic. By the time you get down to profitability, bottom line, PRO or Residential consumer, it's great business. And we can be agnostic about how consumers get that product. We can be agnostic about the business mix as well.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Kate McShane from Goldman Sachs. Just two one-off questions from us. One was with regards to the supply chain initiative. I just wondered if you felt like there was enough diversity and selection in the vendor base to meaningfully improve your optionality when it comes to the supply chain.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Moyo, do you want to take that one?

Moyo LaBode
Chief Merchandising Officer, Leslie's, Inc.

A

Yeah. Great question. So we have strategically added about 10% to our vendor base. And we've added vendors in key areas, particularly in the chemical and sanitizer business. Steve alluded to some of the issues that we had in the Northeast. The majority of those issues really stemmed from not only being able to move the product from the distribution center, but also being able to procure the product. So we've added about 10% to our vendor base, really as a method to derisk the organization.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

And my second question is back to the PRO, just if there's any difference in the private label penetration between what you're offering the PRO and the Residential customer?

Michael R. Egeck A
Chief Executive Officer & Director, Leslie's, Inc.

I'm not sure we've ever looked at that. But based on the assortment, they should be similar.

Sarang Vora Q
Analyst, Telsey Advisory Group LLC

Hi. Thank you, again. Sarang Vora, Telsey Group. My question is also on the PRO side of the business. Seems like PRO is doing fine. Sales are double the volume, and the potential is very strong. Margins are strong at the EBITDA level. Why is the growth slower in 2023 compared to 2022? And what would make you accelerate PRO growth in the future years, just thinking out loud on the PRO side?

Paula F. Baker A
Chief Revenue Officer, Leslie's, Inc.

So we have used the third-party data to help us identify where we should be putting stores. That also helps us identify where we should either buy or build PRO locations as well. So we take a very similar approach in looking at the PRO stores to determine whether we should put a PRO store in a market. We look at the number of pools in the market. We look at the number of PROs in the market, and then we look at competitors and then our own internal store performance. So we plan on continuing the consistent growth as we've identified with the 20 next year, and we haven't really planned beyond that. But we know what the whitespace opportunity is.

Steven Forbes Q
Analyst, Guggenheim Securities LLC

Steve Forbes, Guggenheim. I wanted to follow up on the average revenue per customer topic. Just trying to marry two data points together, the expectation for it to be down 2.5%. Transactions being the driver of that, off that base, I think, of $295. But there was a slide in the presentation that showed, as the customer file matures, it naturally scales up to $354. So you think about that growth, right, in the cohort funnel, just coming from maturation, how do we sort of marry those two data points together and get to that down 2.5% expectation?

Michael R. Egeck A
Chief Executive Officer & Director, Leslie's, Inc.

Yeah. So the same pieces, right? The way we modeled that is just that would flow through both new customers and retained customers. We did a pretty simple straight line approach to that. Obviously, we're going to do everything we can, right, particularly on the retained file to not have that happen. But we think that's the prudent way to model it at the current time.

Steven Forbes Q
Analyst, Guggenheim Securities LLC

Are you seeing anything like in the customer cohorts, in the funnel itself that makes you feel better or worse about the subset of customers you've acquired in each of the respective years over the COVID pandemic?

Michael R. Egeck A
Chief Executive Officer & Director, Leslie's, Inc.

Yeah. We acquired a lot of customers with the chlorine shortage and media blitz, right? The retention of those customers was a little lower than our normal retention rate, which I think you would expect. They were kind of one and done, getting some trichlor. But the laddering up of those customers, once they're in the file, yeah, very similar to other newly acquired customers. So in that respect, we feel quite good about it.

And the question on ARC, the way we get to that plus 1% AOV at the midpoint, right, minus 3.5% in transaction, it's a function of the assumptions we make around discretionary, nondiscretionary and trichlor. That's what drives it.

Q

[indiscernible] (02:40:23). Thanks for hosting this event. Maybe two questions, one on wallet share and one on acquisitions. Just on wallet share, I guess, you have approximately 30%, 33% share of the $900 nondiscretionary spend. I guess I'm interested in knowing a bit more about where the other 70% is going today, whether it's from a competitors' perspective or just categories you're underpenetrated in? And where you'd see low-hanging fruits to get that $300 maybe higher over time?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I think, first of all, it's a great question. The way we think about it is we have some customers that, I'd say, cheat on us, right, with other retailers from time-to-time. The example we've used is Home Depot's fine retailer. They carry a limited selection of pool products. If you're going to Home Depot as a consumer to get a rake and a flower and a new bucket and you see some tabs, you might buy tabs, right? We think we get some [ph] leakage (02:41:30) of wallet share there.

But this amount, this we're quite confident of. There comes a point where when you do that and if you're not testing water and if you're not coming to our store or you're not getting that expert advice, you're going to run to a point where your pool is green and then we get those customers back. So a lot of the work that Mike and his team is doing is really to keep those customers in our fold. And I think one of the most encouraging things is, I think it was Steve who showed a slide, right, that the percentage of pool owners that are shopping at pools, especially retail, is increasing. I think increased 120 basis points. We expect that to continue.

Pool is a – it's a big investment for a homeowner, right? Probably the second biggest asset after their home in their property. And it's our job to educate them how to properly care and maintain and reduce their total costs over time by efficient water testing, by upgrading to new equipment. And that's one of the roles we play in the industry, equipment vendors doing a nice job of innovating. They don't have that direct relationship with millions of customers like we have. Our role is to be like the megaphone of those product innovations and the benefits they bring to the consumer. That's the role we play. And that's – we're very focused on that, both with our digital assets and our physical assets, training, blogs that's going to amplify that message for our vendor partners.

Q

Yes. Perfect. Thank you. And then maybe on the acquisition topic, as a generalist investor, I've rarely seen a company being able to acquire competitors at less than 5 times EBITDA with probably not much competition on these deals and into such an open-ended opportunity. So I guess, why not targeting a much higher growth contribution from M&A over time? I think you have 1 to 3 points. Why not targeting 5 or 10 points a year just given the IRRs and ROIC appeared to be very compelling and fantastic?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We set those 100- to 300-basis point range at the time of the IPO, right? And the strategic growth initiatives were new. And we said, some would take off early, kind of out of the gate. And I think we really saw that with growing the customer file. We made a very quick switch from direct mail marketing to digital marketing and have continued to refine that and our capabilities there. So that one took off, right? Average revenue per consumer took off early.

The M&A initiative, 100 to 300 basis points when we set it up and we've had to build that capability. Clay has had to build his team. We've had to make sure that our integration playbook worked. Now that we've done that and as Clay demonstrated, our pace of acquisitions is increasing. A lot of opportunity out there. So it's kind of a long way of saying, we're not going to let the fact that we published 100 to 300 basis points preclude us from growing that faster if we have the opportunity.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Jonathan from Jefferies. Just a couple of follow-ups. Steve, on gross margin, looks like business mix will be a headwind next year. Can you rank order some of the moving parts there? I mean, it's mix towards digital, growth in PRO and then probably outperformance in Hot Tub. Is that one of those factors that's really driving the business mix more than others?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. If you look at this year, right, so PRO grew 20%, Hot Tub grew 80%. So we expect some of that M&A wrap around to come in the Hot Tub area of the business. So you should see outsized growth. From an order ranking perspective, Hot Tub, PRO, then Residential. And that'll still create some headwinds. But again, given the moderated growth that we expect for 2023, I would expect the mix headwinds to be less than it's been the last couple of years.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Great. And then on one of the slides, there's references to new categories to create new purchase occasions. Can you elaborate on maybe any examples? I think you addressed ecofriendly products, but anything to call out in terms of new product categories?

Moyo LaBode
Chief Merchandising Officer, Leslie's, Inc.

A

Yeah. So I'll take that and if you want to also chime in, Mike. But from a sustainable product standpoint, it's really just kind of expanding on categories like variable speed pumps due to obviously some of the Department of Energy regulations. We're seeing a big shift in automatic pool cleaners into robotic pool cleaners, all of those actually are much more energy-efficient and sustainable. I'll pass over to Mike as well.

Michael Africa
Chief Digital Officer, Leslie's, Inc.

A

Yeah. Additionally, there are things like Perfect Weekly help reduce chemical consumption as well, and looking at different items like covers and everything else that lower water consumption, right, especially in drought-filled areas. So...

Farah Soi
Partner, ICR LLC

A

Yeah. There were few coming in from the webcast. On AccuBlue Home, there are a couple of questions. First, how quickly do you expect AccuBlue Home to ramp? Are there any benchmarks that you can share?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

Yeah. Thank you for the question. We've got 10,000 units planned for 2023. We have seen some latent demand as soon as we've opened up these pilot programs. There's been pretty rapid adoption, which we're encouraged by. That being said, we are producing 10,000 for 2023. We want to grow in a manageable way. And so, we will evaluate performance during 2023 and then make a determination on how we want to scale from there.

Farah Soi
Partner, ICR LLC

A

Thanks for that. What percent of your active customer file fits the profile of potentially being an AccuBlue Home adopter?

Clayton Spann
Vice President Growth & Strategy, Leslie's, Inc.

A

Yeah. And that's the beauty of this program, right? We have a superior product offering that's at an accessible price point to the average pool owner. And so, when we look back to that 60% trial intent that we discussed, that was across hundreds of, call it, general population pool owners across the United States that were surveyed. That was 75% non-Leslie's shoppers and 25% Leslie's shoppers, and generally, were representative sample of the average pool customer.

And so, we're encouraged by that. And what I would say is, it appeals to 60% of our customer base, if not higher, because of some of the attributes that are associated with our brand from trust and expertise, right? So I think 60% is how we would gauge interest across our group and applicability.

Farah Soi
Partner, ICR LLC

A

And this one's for Steve. How much investment is the company currently expensing through the P&L for this home device during FY 2023? Is that a significant drag?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. From an investment perspective, there's an investment in the devices that we're procuring from an operations perspective. I'd characterize it is not overly meaningful. We made investments over the past couple of years. It's flown through the P&L. But from an investment perspective in 2023 will be primarily related to the CapEx for the 10,000 units that we're procuring.

Farah Soi
Partner, ICR LLC

A

And then, another one for you, Steve. Where did advertising [ph] and the yen (02:49:33) FY 2022, and what is included in your FY 2023 guidance for advertising specifically?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. So, we finished the year in 2023 at around $30 million total spend from a marketing perspective. I expect this year to be flat to higher. Again, if you listen to how Mike Africa and Mike Egeck talk about how we run our marketing programs, we start with a specific number in mind as part of the budget. We then determine the return on the investment we get from individual tactics and we invest into ROIs. So, there's opportunity for marketing spend to deviate from that initial target, but it's going to deviate based on the returns that we're seeing in the marketplace.

If you look the last couple of years, there's been – in particularly this last year, there's been quite a bit of inflation in digital marketing that has impacted some of the decisions that we've made. We still have great return opportunities to continue to invest more from a marketing perspective, but it's a very dynamic process, one focused on the consumer and focused on profitability and what it drives for the business.

Farah Soi
Partner, ICR LLC

A

Okay.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I'll just add an example of that. As Steve said and as Mike spoke to as well, we invest in marketing based on the return we're generating. And when you think about our outperformance in Q4 versus our guidance and I think in expectations, we increased marketing 13% in the quarter because we continue to get really good returns from an ROI basis on that investment. And that's what helped drive some of the outperformance.

Farah Soi
Partner, ICR LLC

A

And then, just one final one. This is just, I think, a question around precedence for the comp forecast in FY 2023. In the past, you disclosed you positively comped during the 2008-2009 recession. What was the order of magnitude of those positive comps?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

I don't have that answer. Anybody in the team?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

No. We do know it was positive each year. I don't have the specifics on how much positive each year. Over the three-year period, we grew the overall business 16%. If you step back and look at M&A or acquisition history, did a couple of transactions back in the 1990s, no transactions in the 2000s, really started to think about acquisitions starting in 2010. So, in the 2006 to 2009 time period, that was all organic growth.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Keith Hughes from Truist. Question's on the PRO initiative. You had talked about as you're opening the Leslie's PRO. You don't see cannibalization at your traditional retail stores. You could talk about more of why you think that is? And then, longer term, as you open more of these PRO stores, is your goal to transition that business over to the PRO locations given that – I mean, they probably have a better experience for what they want there?

Paula F. Baker
Chief Revenue Officer, Leslie's, Inc.

A

So, let me take your first – thank you for the question, first of all. and then, with respect to the cannibalization piece and why we don't see it, there's a number of factors that go into that. First of all, many of these PRO stores are going into larger metropolitan areas. So, when we open the first PRO store in a metropolitan area, for example, it draws attention and attraction to those PRO stores, but it also opens up omnichannel capabilities for products and services that we haven't had in that market primarily. So, it just adds additional revenue into all stores in that market. And remember, all of our stores support our PRO customers and our Residential customers. So, when a PRO comes in, even a one pooler has 50 to 75 pools, well, that's 50 to 75 customers that are now coming into that market and we may not have captured fully. So, it raises [ph] sea level (02:53:45) for both the Residential sales and for the PRO sales.

And then, can you say your second part again?

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Yeah. So, longer term, is your goal to transition more of the sales out of the PRO – the PRO sales out of the PRO location given that it – I mean, it does a lot more for the PRO in terms of selection, you have more SKUs, better hours. It seems like their spend would go up a lot if they – if you could get them to focus on the PRO stores?

Paula F. Baker
Chief Revenue Officer, Leslie's, Inc.

A

Sure. Yeah. I think – so, the answer to the question is I'm not 100% sure. What we do is look at each individual market and determine what the needs are there based on the PRO count, the pool count, competitors, our own internal store performance. And we specifically look store-by-store at PRO sales and Residential sales to figure out where opportunities are to grow each individual store in that PRO space.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. I think the part of the magic of this program, right? So, we have all these locations that can serve Residential consumers as well as the PROs. We'll see the behavior from a PRO consumer in a couple of different ways. Maybe they go once a week to stock up on products at their main location, expanded SKU selection, expanded hours. Right? When they're in that market and they're serving that pool and they need something, they don't have to run across town. They can go to the closest store, and we know we're probably that close to store.

So, again, I'm kind of back to that attitude of we're agnostic. So, if the PRO consumer wants to shop at a residentially focused store, they can do that every day of the week. If they want to focus and consolidate all their purchases at the PRO locations, that's fantastic as well and we'll take it. But we're there to serve the consumer however they want to engage with us and we've got a setup with our store teams, our SKU selections and our physical locations and digital assets to do just that.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I would just add the last thing. As of right now, we've got a filter on PRO locations that includes the number of PROs in the market, the density, similar to how we look at Residential pools when we place a Residential store. So, they work very synergistically, which is good, but in terms of the absolute number of PRO stores, before we make that extra investment in inventory and in square footage for a new build, we like to see the PRO customer density at a certain level.

Zachary P. Beeck
Analyst, Robert W. Baird & Co., Inc.

Q

Hey, everyone. Zach Beeck from Baird here for Pete Benedict. Thanks for all the color. We had one more on the customer file. You had spoken, I believe, in the past to growing the active customer count by 2% to 3% per year. I'm just curious if you think this is attainable next year coming off the strong growth realized during the pandemic? And then, also on the 3% adjusted file growth for fiscal 2022, just curious if you could provide the unadjusted number there? Thank you.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. The unadjusted number was minus 2% for the full year, and that was entirely driven by the chlorine media coverage event, I will call it, more than covered by that, actually. And that's what gives us confidence in next year being able to hold on to that file. We won't be comping that what was really an extraordinary event. It was multiples bigger impact on our business than the Texas freeze is one way to think about it. So, without that very difficult comp, we feel quite good about keeping that customer file intact for next year.

Farah Soi
Partner, ICR LLC

A

Thanks. Again from the webcast. Clarification on the comp cadence of your FY 2023 or what's being contemplated in the guidance. If comps are planned positive in second half 2023, then first half 2023 comps would need to be down low-double-digits in order to land at the midpoint of FY 2023 plan of negative 2.5%. Is that the right way to think about that comp build?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

That is not in our model. So, I think as you think about the second half of the year, there's going to be positive comps, but it's going to be low-single-digits. The offset is negative comps in the first half of the year, but not talking double-digit declines.

Farah Soi
Partner, ICR LLC

A

Steve, there's one more. How do you get to the $60 million of interest expense?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Oh, sure. So, when you think about the two pieces of two debt instruments, there's our term loan, about $800 million, again, talked about 480 basis point assumption from a LIBOR perspective, add the spread in there of 250 basis points, gets you to 7.3%. That gets you almost all the way. That gets you to the mid-50s from an interest

expense perspective. We typically will go on our line of credit or revolver in kind of the first half of the year, come out of it in kind of late Q2 or early Q3. That's structured as LIBOR plus a range of 125 to 175 basis points. So, that makes up the differential to get to kind of $60 million of total interest expense for the year.

Farah Soi
Partner, ICR LLC

A

A question on tabs. Tabs have been on sale lately. Is the minus 10% high end assumption for trichlor pricing basically flat base price less 10% for the discounts?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

No. The way we think about – the way the model works and the way we modeled it is that would be off of the average selling price of 2022. We've talked about this in the past, chemicals and particularly trichlor is the promotional vehicle for the industry. So, it's typically promoted from time-to-time during the year, most heavily at the start of the pool season. But throughout the year, it's a proven traffic driver for pool supply retailers, [ph] ourselves included (02:59:44). But when we look at that potential deflation in trichlor pricing, it's off of last year's average pricing, which would include intermittent 10% to 20% off promotions.

Farah Soi
Partner, ICR LLC

A

To the capital allocation one, sort of a leverage one, slide 14 has a target for net leverage of 1.8 times to 2.2 times. Should we think of this as a new long-term target for the company?

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. We've talked about post-IPO being in the kind of 2 times range. This is a business that historically has been much higher levered as a public company, and more importantly, in the current environment, we're going to be more conservative from a balance sheet perspective and keep those debt levels down from a total turns perspective. As we continue to grow the business in a different macroeconomic environment, we'd certainly anticipate reviewing the opportunity to reevaluate leverage. But for today and how we're looking at fiscal 2023, we're looking at kind of in and around that 2 turns of net leverage.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Steve Forbes, Guggenheim. Maybe just one last follow-up on inflation. Specialty chemicals, I think based on the 5% inflation guidance, it's implying a mid-single-digit pricing inflation impact within specialty chemicals. Is that right? And I guess, how do you sort of think about the risk of deflation within the non-trichlor chemicals?

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I think we don't see any significant risk of deflation in non-trichlor chemicals for the same reasons we mentioned on trichlor, right? The cost, and we believe we have pretty good line of sight to this, the costs are up. So, it would be – would classify it as irrational behavior for someone to take retail pricing down in a cost positive environment. We just don't typically see that, particularly in the pool industry.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

I think that's it. So, first of all, thank you all for joining us today, live and in the webcast. For the live participants, nice to finally meet some of you face-to-face. It's been a while since we went public in the middle of the pandemic. And finally, we'd like to wish all of you and yours a safe and joyous holiday season. And however you may celebrate the holidays, we encourage you to include a pool and a hot tub, and that mix somewhere, please, pool and hot tub use, we'd like to see it go up.

So, that ends our presentation for the day. Thank you very much. Happy holidays.

Exhibit 5

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended October 1, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-39667

LESLIE'S, INC.

(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-8397425** (I.R.S. Employer Identification No.)
2005 East Indian School Road **Phoenix, AZ** (Address of principal executive offices)	**85016** (Zip Code)

Registrant's telephone number, including area code: (602) 366-3999

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	LESL	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock on The Nasdaq Global Select Market on April 1, 2022, the last business day of the Registrant's most recently completed second fiscal quarter was approximately $3.7 billion. For purposes of this response, the Registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are affiliates of the Registrant.

The number of shares of Registrant's Common Stock outstanding as of November 23, 2022 was 183,545,344.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the Registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2023, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below in addition to the other information set forth in this Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations section and the consolidated financial statements and related notes, before making an investment decision. The risks described below are not the only ones we face. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, could materially and adversely affect our business, financial condition, prospects, or results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your original investment. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.

Additionally, macroeconomic and geopolitical developments, including the ongoing COVID-19 pandemic, escalating global conflicts, supply chain disruptions, labor market constraints, rising rates of inflation and rising interest rates may amplify many of the risks discussed below to which we are subject. The extent of the impact of COVID-19 on our financial and operating performance depends significantly on the duration and severity of the pandemic, the actions taken to contain or mitigate its impact and any changes in consumer behaviors. Among other factors, significant disruption to our supply chain for products we sell, as a result of COVID-19, geopolitical conflict or otherwise, could have a material impact on our sales and earnings.

Summary of Risk Factors

The following summarizes the risks facing our business, all of which are more fully described below. This summary should be read in conjunction with Risk Factors below and should not be relied upon as an exhaustive summary of the material risks facing our business. The order of presentation is not necessarily indicative of the level of risk that each factor poses to us.

Risks Related to the Nature of Our Business

- *If we are unable to achieve comparable sales growth, our profitability and performance could be materially adversely impacted.*
- *Past growth may not be indicative of future growth.*
- *We may not be able to successfully manage our inventory to match consumer demand.*
- *Loss of key members of management could adversely affect our business.*
- *Our business is significantly dependent on our ability to meet our labor needs.*
- *We are subject to legal or other proceedings that could have a material adverse effect on us.*
- *Disruptions from disasters and similar events could have a material adverse effect on our business.*

Risks Related to Our Industry and the Broader Economy

- *We face competition by manufacturers, retailers, distributors, and service providers in the residential and professional pool and spa care market.*
- *The demand for our swimming pool and spa related products and services may be adversely affected by unfavorable economic conditions.*
- *The ongoing COVID-19 pandemic could adversely impact our business and results of operations.*
- *The demand for pool chemicals may be affected by consumer attitudes towards products for environmental or safety reasons.*
- *Our results of operations may fluctuate from quarter to quarter for many reasons, including seasonality.*
- *We are susceptible to adverse weather conditions.*

Technology and Privacy Related Risks

- *If our online systems do not function effectively, our operating results could be adversely affected.*
- *Any limitation or restriction to sell on online platforms could harm our profitability.*

- *A significant disturbance or breach of our technological infrastructure could adversely affect our financial condition and results of operations.*
- *Improper activities by third parties and other events or developments may result in future intrusions into or compromise of our networks, payment card terminals, or other payment systems*.

Risks Related to Our Business Strategy

- *We may acquire other companies or technologies, which could fail to result in a commercial product and otherwise disrupt our business.*
- *Our operating results will be harmed if we are unable to effectively manage and sustain our future growth or scale our operations.*
- *Our aspirations and disclosures related to environmental, social, and governance ("ESG") matters expose us to risks that could adversely affect our reputation and performance.*

Risks Related to the Manufacturing, Processing, and Supply of Our Products

- *Our business includes the packaging and storage of chemicals, and an accident related to these chemicals could subject us to liability and increased costs.*
- *Product supply disruptions may have an adverse effect on our profitability and operating results.*
- *The cost of raw materials could increase our cost of goods sold and cause our results of operations and financial condition to suffer.*

Risks Related to Commercialization of Our Products

- *The commercial success of our planned or future products is not guaranteed.*
- *We may implement a product recall or voluntary market withdrawal, which could significantly increase our costs, damage our reputation, and disrupt our business.*
- *If we do not manage product inventory effectively and efficiently, it could adversely affect profitability.*
- *If we do not effectively manage our distribution centers, it could adversely affect our business and financial condition.*
- *If we do not continue to obtain favorable purchase terms with manufacturers, it could adversely affect our operating results.*

Risks Related to Government Regulation

- *The nature of our business subjects us to compliance with employment, environmental, health, transportation, safety, and other governmental regulations.*
- *Product quality, warranty claims, or safety concerns could impact our sales and expose us to litigation.*

Risks Related to Intellectual Property Matters

- *If we are unable to adequately protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce or defend our rights.*
- *If we infringe on or misappropriate the proprietary rights of others, we may be liable for damages.*

Risks Related to Our Indebtedness

- *Our substantial indebtedness could materially adversely affect our financial condition and our ability to operate our business.*
- *Our ability to generate sufficient cash depends on numerous factors beyond our control, and we may be unable to generate sufficient cash flow to service our debt obligations.*
- *Restrictive covenants in the agreements governing our Credit Facilities may restrict our ability to pursue our business strategies, and failure to comply with these restrictions could result in acceleration of our debt.*

- *Incurrence of substantially more debt could further exacerbate the risks associated with our substantial leverage.*
- *The phase-out of the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with a different reference rate, may adversely affect interest rate.*

Risks Related to Ownership of Our Common Stock

- *Our stock price may be volatile, resulting in substantial losses for investors.*
- *An active trading market for our common stock may not be sustained.*
- *Future sales of common stock by existing stockholders could cause our stock price to decline.*
- *Stockholders' ability to influence corporate matters may be limited because a small number of stockholders beneficially own a substantial amount of our common stock and continue to have substantial control over us.*
- *Transactions engaged in by our principal stockholders, our officers or directors involving our common stock may have an adverse effect on the price of our stock.*
- *Certain of our stockholders have the right to engage or invest in the same or similar businesses as us.*
- *We do not intend to pay dividends for the foreseeable future.*
- *Anti-takeover provisions in our charter documents and under Delaware law could limit certain stockholder actions.*
- *Certain provisions of our fifth amended and restated certificate of incorporation may have the effect of discouraging lawsuits against our directors and officers.*
- *We will continue to incur increased costs as a result of being a public company.*
- *We have identified a material weakness in our internal control over financial reporting related to ineffective information technology general controls (ITGCs) in the area of user access over certain information technology (IT) systems that support the Company's financial reporting processes. Such weakness led to a determination that our internal control over financial reporting and disclosure controls and procedures were not effective as of October 1, 2022. Our inability to remediate this material weakness, our identification of any additional weaknesses, or our inability to achieve and maintain effective disclosure controls and procedures and internal control over financial reporting in a timely manner could adversely affect our results of operations, our stock price and investor confidence in us.*

Risks Related to the Nature of Our Business

Our success depends on our ability to maintain or increase comparable sales, and if we are unable to achieve comparable sales growth, our profitability and performance could be materially adversely impacted.

Our success depends on increasing comparable sales through our merchandising strategy and ability to increase sales and profits. To increase sales and profits, and therefore comparable sales growth, we focus on delivering value and generating consumer excitement by staffing our locations with pool and spa experts, developing compelling products, optimizing inventory management, maintaining strong location conditions, and effectively marketing current products and new product offerings. If these efforts become less successful, we may not be able to maintain or improve the levels of comparable sales that we have experienced in the past, which could adversely impact our profitability and overall business results. In addition, competition and pricing pressures from competitors may also materially adversely impact our operating margins. Our comparable sales growth could be lower than our historical average or our future target for many reasons, including general economic conditions, operational performance, price inflation or deflation, rising interest rates, recession fears, industry competition, new competitive entrants near our locations, price changes in response to competitive factors, the impact of new locations entering the comparable base, cycling against any year or quarter of above-average sales results, unfavorable weather conditions, supply shortages or other operational disruptions, the number and dollar amount of consumer transactions in our locations, our ability to provide product or service offerings that generate new and repeat visits to our locations, and the level of consumer engagement that we provide in our locations. Opening new locations in our established markets may result in inadvertent oversaturation, temporary or permanent diversion of consumers, and sales from our existing locations to new locations and reduced comparable sales, thus adversely affecting our overall financial performance. These factors may cause our comparable sales results to be materially lower than in recent periods, which could harm our profitability and business.

Past growth may not be indicative of future growth.

Historically, we have experienced substantial sales growth through organic market share gains, new location openings, and acquisitions that have increased our size, scope, and geographic footprint. Our various business strategies and initiatives, including our growth initiatives, are subject to business, economic, and competitive uncertainties and contingencies, many of which are beyond our control. While we contemplate continued growth through internal expansion and acquisitions, we may not be able to:

- acquire new consumers, retain existing consumers, and grow our share of the market;
- penetrate new markets;
- provide a relevant omni-channel experience to rapidly evolving consumer expectations through our proprietary mobile app and e-commerce websites;
- generate sufficient cash flows or obtain sufficient financing to support expansion plans and general operating activities;
- identify suitable acquisition candidates and successfully integrate acquired businesses;
- maintain favorable supplier arrangements and relationships; and
- identify and divest assets that do not continue to create value consistent with our objectives.

If we do not manage these factors successfully, our operating results could be adversely affected.

We may not be able to successfully manage our inventory to match consumer demand, which could have a material adverse effect on our business, financial condition, and results of operations.

We base our inventory purchases, in part, on our sales forecasts. If our sales forecasts overestimate consumer demand, we may experience higher inventory levels, which could result in the need to sell products at lower than anticipated prices, leading to decreased profit margins. Conversely, if our sales forecasts underestimate consumer demand, we may have insufficient inventory to meet demand, leading to lost sales, either of which could materially adversely affect our financial performance.

Loss of key members of management or failure to attract, develop, and retain highly qualified personnel could adversely affect our business.

Our future success depends on the continued efforts of the members of our executive management team. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions, or if we are unable to attract and retain high-quality executives or key personnel in the future, our business may be adversely affected.

We consider our employees to be the foundation for our growth and success. As such, our future success depends in large part on our ability to attract, train, retain, and motivate qualified personnel. During the height of our seasonal activities, we hire additional employees, including seasonal and part-time employees who generally are not employed during the off-season. If we are unable to attract and hire additional personnel during these seasons, our operating results could be adversely affected.

Our business is significantly dependent on our ability to meet our labor needs.

In order to maintain and continue expanding our operations, we depend on our ability to attract and retain qualified team members. Competition for non-entry-level personnel, particularly for team members with retail experience, is significant. Additionally, our ability to maintain a consistent level of high-quality customer service in our stores is critical to our success. Many of our store team members are in entry-level positions that historically have high rates of turnover. We may be unable to meet our labor needs and control our costs due to external factors such as the availability of qualified persons in the work forces of the markets in which we operate, which is impacted by factors including competition, unemployment levels, demand for certain labor expertise, prevailing wage rates, and the potential adoption of new or revised employment and labor laws and regulations. If we are unable to locate, attract, or retain qualified personnel, or if costs of labor or other related costs increase significantly, our financial performance could be adversely affected.

Adjusted net income increased to $161.5 million in fiscal 2021 from $65.0 million in fiscal 2020, an increase of $96.5 million. Adjusted diluted earnings per share increased to $0.85 in fiscal 2021 compared to $0.42 in fiscal 2020.

Adjusted EBITDA

Adjusted EBITDA increased to $270.6 million fiscal 2021 from $182.8 million in fiscal 2020, an increase of $87.8 million or 48.0%. This increase was due primarily to our increase in comparable sales, an improvement in gross margin, and cost leverage.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. Sales and earnings are highest during the third and fourth fiscal quarters, which include April through September, and represent the peak months of swimming pool use. In fiscal 2022, we generated approximately 75% of our sales and 95% of our Adjusted EBITDA in the third and fourth quarters of our fiscal year. Sales are substantially lower during our first and second fiscal quarters. We have a long track record of investing in our business throughout the year, including in operating expenses, working capital, and capital expenditures related to new locations and other growth initiatives. While these investments drive performance during the primary selling season in our third and fourth fiscal quarters, they have a negative impact during our first and second fiscal quarters.

We typically experience a build-up of inventory and accounts payable during the first and second fiscal quarters in anticipation of the peak swimming pool supply selling season. We negotiate extended payment terms with certain of our primary suppliers as we receive merchandise in December through March, and we pay for merchandise in April through July.

The principal external factor affecting our business is weather. Hot weather can increase purchases of chemicals and other non-discretionary products as well as purchases of discretionary products and can drive increased purchases of installation and repair services. Unseasonably cool weather or significant amounts of rainfall during the peak sales season can reduce chemical consumption in pools and spas and decrease consumer purchases of our products and services. In addition, unseasonably early or late warming trends can increase or decrease the length of the pool season and impact timing around pool openings and closings and, therefore, our total sales and timing of our sales.

We generally open new locations before our peak selling season begins and we close locations after our peak selling season ends. We expect that our quarterly results of operations will fluctuate depending on the timing and amount of sales contributed by new locations.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and borrowing availability under our Revolving Credit Facility. Historically, we have funded working capital requirements, capital expenditures, payments related to acquisitions, debt service requirements, and repurchases of shares of our common stock with internally generated cash on hand and through our Revolving Credit Facility.

Cash and cash equivalents consist primarily of cash on deposit with banks. Cash and cash equivalents totaled $112.3 million and $343.5 million as of October 1, 2022 and October 2, 2021, respectively. As of October 1, 2022 and October 2, 2021, we did not have any outstanding borrowings under our Revolving Credit Facility.

Our primary working capital requirements are for the purchase of inventory, payroll, rent, other facility costs, distribution costs, and general and administrative costs. Our working capital requirements fluctuate during the year, driven primarily by seasonality and the timing of inventory purchases.

Our capital expenditures are primarily related to infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems, ongoing location improvements, expenditures related to our distribution centers, and new location openings. We expect to fund capital expenditures from net cash provided by operating activities.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LESLIE'S, INC.

Date: November 30, 2022	By:	/s/ Michael R. Egeck **Michael R. Egeck** **Chief Executive Officer** **(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Steven L. Ortega **Steven L. Ortega**	Chairman	November 30, 2022
/s/ Michael R. Egeck **Michael R. Egeck**	Chief Executive Officer (Principal Executive Officer) and Director	November 30, 2022
/s/ Steven M. Weddell **Steven M. Weddell**	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 30, 2022
/s/ Yolanda Daniel **Yolanda Daniel**	Director	November 30, 2022
/s/ Jodeen Kozlak **Jodeen Kozlak**	Director	November 30, 2022
/s/ Eric Kufel **Eric Kufel**	Director	November 30, 2022
/s/ Marc Magliacano **Marc Magliacano**	Director	November 30, 2022
/s/ Susan O'Farrell **Susan O'Farrell**	Director	November 30, 2022
/s/ James R. Ray, Jr. **James R. Ray, Jr.**	Director	November 30, 2022
/s/ Claire Spofford **Claire Spofford**	Director	November 30, 2022
/s/ John Strain **John Strain**	Director	November 30, 2022